

Historic, archived document

Do not assume content reflects current scientific knowledge, policies, or practices.

LEGISLATIVE HISTORY
OF
H.R. 8363
88TH CONGRESS
THE REVENUE ACT OF 1964
PUBLIC LAW 88-272

COMMITTEE ON WAYS AND MEANS
U.S. HOUSE OF REPRESENTATIVES
EIGHTY-NINTH CONGRESS
SECOND SESSION

PART 4



Prepared by the Staff of the Committee on Ways and Means for the
use of the Committee on Ways and Means

201809
201809

LEGISLATIVE HISTORY

OF

H.R. 8363

88TH CONGRESS

THE REVENUE ACT OF 1964

PUBLIC LAW 88-272

COMMITTEE ON WAYS AND MEANS
U.S. HOUSE OF REPRESENTATIVES
EIGHTY-NINTH CONGRESS
SECOND SESSION

PART 4



Prepared by the Staff of the Committee on Ways and Means for the
use of the Committee on Ways and Means

U.S. GOVERNMENT PRINTING OFFICE

69-108 O

WASHINGTON : 1966

COMMITTEE ON WAYS AND MEANS

WILBUR D. MILLS, Arkansas, *Chairman*

CECIL R. KING, California
HALE BOGGS, Louisiana
EUGENE J. KEOGH, New York
FRANK M. KARSTEN, Missouri
A. S. HERLONG, Jr., Florida
JOHN C. WATTS, Kentucky
AL ULLMAN, Oregon
JAMES A. BURKE, Massachusetts
CLARK W. THOMPSON, Texas
MARTHA W. GRIFFITHS, Michigan
W. PAT JENNINGS, Virginia
GEORGE M. RHODES, Pennsylvania
DAN ROSTENKOWSKI, Illinois
PHIL M. LANDRUM, Georgia
CHARLES A. VANIK, Ohio
RICHARD H. FULTON, Tennessee

JOHN W. BYRNES, Wisconsin
THOMAS B. CURTIS, Missouri
JAMES B. UTT, California
JACKSON E. BETTS, Ohio
HERMAN T. SCHNEEBELI, Pennsylvania
HAROLD R. COLLIER, Illinois
JOEL T. BROYHILL, Virginia
JAMES F. BATTIN, Montana

LEO H. IRWIN, *Chief Counsel*
JOHN M. MARTIN, Jr., *Assistant Chief Counsel*
WILLIAM H. QUEALY, *Minority Counsel*
JOHN P. BAKER, *Professional Staff*
THOMAS P. KERESTER, *Professional Staff*

INTRODUCTION

The legislative history of H.R. 8363 is a compilation of legislative history materials relating to the enactment of Public Law 88-272. The purpose of this history is to make readily available all of the public documents containing pertinent information relative to the enactment of the law.

This document sets forth in chronological order the action taken by Congress with respect to this law. For example, section 1 sets forth the public law; section 2, the President's state of the Union message; section 3, President's 1963 tax message, and so on.

The material contained herein has been inserted in toto, therefore, the original pagination appears in all cases.

In order to facilitate the utilization of the House floor debate on H.R. 8363 as well as the House and Senate floor debates on the conference report, this document contains an alphabetical listing of Members of Congress with cross-references to their remarks, as well as their extension of remarks. However, in the case of the Senate floor debate, the cross-references are made by Senate amendments in the order in which they were taken up on the floor of the Senate. The names of the Senators making remarks with respect to a particular amendment are listed alphabetically under each amendment. In this connection, however, the page numbers refer to the pages of this document. The floor debates are taken from the Congressional Record for the date indicated. The page numbers of the daily Congressional Record are bracketed.

Appendix II of this document is a comparison of the provisions of H.R. 8363, as passed by the House, with present law, Treasury recommendations, Senate Finance Committee version, Senate version and as agreed to by the conferees. For quick reference, it also contains a summary of Senate Finance Committee revisions and Senate floor amendments with conference action on such revisions and amendments. Also contained therein are recommendations of the Treasury Department not adopted; amendments considered and rejected by the Senate Finance Committee; and Senate floor amendments offered and rejected or withdrawn.

CONTENTS

TABLE SHOWING CONTENTS OF EACH PART

	Page
Part 1: Sections 1 through 9.....	91-1405
Part 2: Sections 10 through 15.....	1407-2493
Part 3: Sections 16 through 18.....	2495-3543
Part 4: Sections 19 through appendix.....	3545-4404
Introduction.....	III
Chronological history of the legislation.....	VII
Alphabetical listing of Members of Congress with cross-references to floor debates:	
A. House floor debate on bill.....	IX
B. Senate floor debate on bill.....	XI
C. House floor debate on conference report.....	XIX
D. Senate floor debate on conference report.....	XX
Section 1. Public law.....	1
Section 2. President's state of the Union message.....	131
Section 3. President's 1963 tax message.....	145
Section 4. Summary of the President's 1963 tax message.....	171
Section 5. Digest of testimony presented and statements submitted to the Committee on Ways and Means with respect to the President's 1963 tax message.....	253
Section 6. Compilation of press releases issued by the Committee on Ways and Means.....	351
Section 7. Bill as introduced in the House.....	395
Section 8. Bill as reported by the Committee on Ways and Means.....	707
Section 9. Committee report.....	1019
Section 10. Brief summary of principal provisions of H.R. 8363 "The Revenue Act of 1963".....	1407
Section 11. House floor debate.....	1415
Section 12. Summary of bill as passed by the U.S. House of Representatives (pts. A, B, C, and D).....	1627
Section 13. Bill as passed by the House and referred to the Senate Committee on Finance.....	1767
Section 14. Press releases issued by Senate Committee on Finance.....	2079
Section 15. Bill as reported by the Senate Committee on Finance.....	2105
Section 16. Committee report (pts. 1 and 2).....	2495
Section 17. Brief summary of the provisions of H.R. 8363 as reported by the Senate Committee on Finance.....	2777
Section 18. Senate floor debate.....	2797
Section 19. Bill as passed by the Senate with amendments of the Senate numbered.....	3545
Section 20. Senate amendments numbered.....	3947
Section 21. Summary of Senate amendments.....	4051
Section 22. Summary of conference committee action.....	4071
Section 23. Conference report.....	4077
Section 24. Brief summary of the provisions of the bill as agreed to by the conferees.....	4135
Section 25. House floor debate on conference report.....	4147
Section 26. Senate floor debate on conference report.....	4201
Appendix I. Revenue estimates relating to the House, Senate and conference versions of the bill.....	4241
II. Comparison of provisions as passed by the House, with present law, Treasury recommendations, Senate Finance Committee version, Senate version, and as agreed to by conferees.....	4275

CHRONOLOGICAL HISTORY OF THE LEGISLATION

Date of President's state of the Union message-----	Jan. 14, 1963.
Date of President's tax message-----	Jan. 24, 1963.
Dates of public hearings before the House Committee on Ways and Means-----	Feb. 6, 7, 8, 18, 19, 20, 21, 25, and 26; Mar. 4, 6, 7, 8, 11, 12, 13, 14, 15, 18, 19, 20, 21, 22, 25, 26, and 27, 1963.
House bill number-----	H.R. 8363.
Date bill introduced in House of Representatives-----	Sept. 10, 1963.
Date bill reported by Committee on Ways and Means-----	Sept. 13, 1963.
House report number-----	H. Rept. 749 (with supplemental and separate views).
Date rule obtained—H. Res. 527, providing for a closed rule, waiving points of order against, 8 hours of debate, committee amendments, and 1 motion to recommit-----	Sept. 24, 1963.
Dates of House floor debate and final passage-----	Sept. 24 and 25, 1963.
Rule: H. Res. 527 adopted by a record vote—320 yeas, 66 nays, 46 not voting.	
Motion to recommit: Rejected by a record vote—199 yeas, 226 nays, 7 not voting.	
Final passage: Passed by a record vote—271 yeas, 155 nays, 6 not voting.	
Public hearings before the Senate Committee on Finance-----	Oct. 15, 16, 17, 18 21, 22, 23, 24, 25, 28, 29, 30, and 31; Nov. 1, 4, 5, 6, 7, 8, 12, 13, 14, 15, 21, and 22; Dec. 2, 3, 4, 5, 6, 9, and 10, 1963.
Date reported by Senate Committee on Finance-----	Jan. 28, 1964.
Senate report number-----	S. Rept. 830 (with separate views).
(Supplemental report, pt. 2 of S. Rept. 830, filed on Jan. 31, 1964.)	
Dates of Senate floor debate-----	Jan. 31; Feb. 3, 4, 5, and 6, 1964.
Date bill passed the Senate-----	Feb. 7, 1964.
Final passage: Passed by a record vote—77 yeas, 21 nays.	
Date conference report filed-----	Feb. 24, 1964.
Conference report number-----	Rept No. 1149.
Date conference report presented to and adopted by House of Representatives-----	Feb. 25, 1964.
Vote: 326 yeas, 83 nays.	
Date conference report presented to and adopted by the Senate-----	Feb. 26, 1964
Vote: 74 yeas, 19 nays.	
Date signed by the President-----	Do.
Public law number-----	Public Law 88-272.

ALPHABETICAL LISTING OF MEMBERS OF CONGRESS WITH CROSS-REFERENCES TO FLOOR DEBATES (IN- CLUDING EXTENSION OF REMARKS)

A. HOUSE FLOOR DEBATE ON BILL

Members of the House

Page Nos.
(of this
document)

Abernethy, Thomas G. (Mississippi)	1424, 1571
Alger, Bruce (Texas)	1482, 1495
Anderson, John B. (Illinois)	1555
Ashbrook, John M. (Ohio)	1571
Baker, Howard H. (Tennessee)	1446, 1448, 1449
Baldwin, John F. (California)	1511
Barrett, William A. (Pennsylvania)	1442
Barry, Robert R. (New York)	1538
Becker, Frank J. (New York)	1514, 1516
Bennett, Charles E. (Florida)	1534
Berry, E. Y. (South Dakota)	1524
Betts, Jackson E. (Ohio)	1471
Boggs, Hale (Louisiana)	1488, 1489, 1492, 1603
Boland, Edward P. (Massachusetts)	1479
Bolling, Richard (Missouri)	1417, 1418, 1422, 1425
Bow, Frank T. (Ohio)	1593
Brown, Clarence J. (Ohio)	1418, 1419
Broyhill, James T. (North Carolina)	1533
Burke, James A. (Massachusetts)	1474, 1547
Burleson, Omar (Texas)	1594
Byrne, James A. (Pennsylvania)	1523
Byrnes, John W. (Wisconsin)	1437, 1440, 1463, 1465, 1469, 1471, 1487, 1489, 1492, 1495, 1506, 1569, 1570, 1587, 1589, 1591, 1592, 1593, 1608, 1609, 1610, 1615, 1616, 1617, 1618, 1619, 1620, 1622, 1624
Cannon, Clarence (Missouri)	1586, 1587
Chelf, Frank (Kentucky)	1602
Clausen, Don H. (California)	1578
Cohelan, Jeffery (California)	1557
Collier, Harold R. (Illinois)	1584, 1585
Colmer, William M. (Mississippi)	1422
Conte, Silvio O. (Massachusetts)	1510
Curtis, Thomas B. (Missouri)	1418, 1437, 1440, 1441, 1442, 1572, 1576, 1577, 1578, 1579, 1580, 1584
Derounian, Steven B. (New York)	1504, 1512, 1514, 1516
Donohue, Harold D. (Massachusetts)	1554
Edmondson, Ed (Oklahoma)	1602
Evins, Joe L. (Tennessee)	1475
Findley, Paul (Illinois)	1556
Fino, Paul A. (New York)	1572, 1576
Ford, Gerald R. (Michigan)	1572, 1573
Foreman, Ed (Texas)	1589
Fulton, James G. (Pennsylvania)	1425
Fuqua, Don (Florida)	1522
Glenn, Milton W. (New Jersey)	1558
Gonzalez, Henry B. (Texas)	1484, 1559
Goodell, Charles E. (New York)	1551
Gray, Kenneth J. (Illinois)	1598
Griffiths, Martha W. (Michigan)	1449
Gross, H. R. (Iowa)	1446, 1591

ALPHABETICAL LISTING OF MEMBERS OF CONGRESS WITH CROSS-REFERENCES TO FLOOR DEBATES (IN- CLUDING EXTENSION OF REMARKS)—Continued

<i>Members of the House—Continued</i>	Page Nos. (of this document)
Hall, Durward G. (Missouri)-----	1470
Halleck, Charles A. (Indiana)-----	1441, 1442, 1574, 1575, 1608, 1615
Halpern, Seymour (New York)-----	1525
Harvey, Ralph (Indiana)-----	1539
Herlong, A. S., Jr. (Florida)-----	1566, 1569, 1570
Hoeven, Charles B. (Iowa)-----	1585
Jensen, Ben F. (Iowa)-----	1570
Joelson, Charles S. (New Jersey)-----	1522, 1598
Jonas, Charles Raper (North Carolina)-----	1592
Jones, Paul C. (Missouri)-----	1442, 1477
Keogh, Eugene J. (New York)-----	1442, 1443
King, Cecil R. (California)-----	1541
Knox, Victor A. (Michigan)-----	1463, 1465
Laird, Melvin R. (Wisconsin)-----	1519
Langen, Odin (Minnesota)-----	1539
Lindsay, John V. (New York)-----	1553
McClory, Robert (Illinois)-----	1577
McCormack, John W. (Massachusetts)-----	1607
McLoskey, Robert T. (Illinois)-----	1534
Mahon, George H. (Texas)-----	1573, 1574, 1575, 1584
Meador, George (Michigan)-----	1569, 1570
Mills, Wilbur D. (Arkansas)-----	1417, 1426, 1449, 1467, 1469, 1475, 1477, 1478, 1481, 1487, 1488, 1504, 1516, 1566, 1571, 1573, 1586, 1587, 1588, 1591, 1594, 1595, 1597, 1598, 1599, 1600, 1602, 1606, 1607, 1610, 1616, 1617, 1618, 1619, 1620, 1621, 1622.
Moorhead, William S. (Pennsylvania)-----	1606
Murphy, John M. (New York)-----	1535
O'Brien, Leo W. (New York)-----	1518
O'Neill, Thomas P., Jr. (Massachusetts)-----	1419
Pelly, Thomas M. (Washington)-----	1485, 1517
Pucinski, Roman C. (Illinois)-----	1563
Randall, Wm. J. (Missouri)-----	1588
Robison, Howard W. (New York)-----	1448, 1449, 1580
Rogers, Paul G. (Florida)-----	1565, 1572, 1573
Roosevelt, James (California)-----	1525
Roush, J. Edward (Indiana)-----	1599
Schadeberg, Henry C. (Wisconsin)-----	1579
Schneebeli, Herman T. (Pennsylvania)-----	1466
Schwengel, Fred (Iowa)-----	1506
Selden, Armistead I., Jr. (Alabama)-----	1599
Short, Don L. (North Dakota)-----	1528
Smith, Howard W. (Virginia)-----	1505
Smith, Neal (Iowa)-----	1417, 1418, 1469, 1601
Snyder, M. G. (Gene) (Kentucky)-----	1580
Staggers, Harley O. (West Virginia)-----	1606
Steed, Tom (Oklahoma)-----	1603
Stinson, K. W. (Bill) (Washington)-----	1610
Thompson, Clark W. (Texas)-----	1597
Udall, Morris K. (Arizona)-----	1516
Ullman, Al (Oregon)-----	1467, 1469, 1537
Utt, James B. (California)-----	1510, 1511, 1512
Vanik, Charles A. (Ohio)-----	1478
Van Pelt, William K. (Wisconsin)-----	1487
Watson, Albert W. (South Carolina)-----	1536
Wharton, J. Ernest (New York)-----	1534
Whitten, Jamie L. (Mississippi)-----	1595
Williams, John Bell (Mississippi)-----	1564
Wilson, Earl (Indiana)-----	1576
Wright, Jim (Texas)-----	1602

ALPHABETICAL LISTING OF MEMBERS OF CONGRESS WITH CROSS-REFERENCES TO FLOOR DEBATES (IN- CLUDING EXTENSION OF REMARKS)—Continued

B. SENATE FLOOR DEBATE ON BILL

Subject and Members of the Senate

Page Nos.
(of this
document)

General debate on the bill, adoption of Senate Committee on Finance amendments, and procedures to be followed during Senate debate-----	2799- 2860, 3012-3018, 3232-3233, 3362-3364, 3383, 3489-3491, 3509-3543
Allott, Gordon (Colorado)	
Bartlett, E. L. (Bob) (Alaska)	
Brewster, Daniel B. (Maryland)	
Cannon, Howard W. (Nevada)	
Clark, Joseph S. (Pennsylvania)	
Dirksen, Everett McKinley (Illinois)	
Dominick, Peter H. (Colorado)	
Douglas, Paul H. (Illinois)	
Eastland, James O. (Mississippi)	
Ellender, Allen J. (Louisiana)	
Fong, Hiram L. (Hawaii)	
Fulbright, J. W. (Arkansas)	
Gore, Albert (Tennessee)	
Gruening, Ernest (Alaska)	
Hart, Philip A. (Michigan)	
Hruska, Roman L. (Nebraska)	
Humphrey, Hubert H. (Minnesota)	
Javits, Jacob K. (New York)	
Jordan, Len B. (Idaho)	
Keating, Kenneth B. (New York)	
Lausche, Frank J. (Ohio)	
Long, Russell B. (Louisiana)	
McCarthy, Eugene J. (Minnesota)	
Mansfield, Mike (Montana)	
Miller, Jack R. (Iowa)	
Morton, Thruston B. (Kentucky)	
Pell, Claiborne (Rhode Island)	
Proxmire, William (Wisconsin)	
Randolph, Jennings (West Virginia)	
Ribicoff, Abraham A. (Connecticut)	
Smathers, George A. (Florida)	
Stennis, John (Mississippi)	
Talmadge, Herman E. (Georgia)	
Thurmond, Strom (South Carolina)	
Tower, John G. (Texas)	
Williams, Harrison A., Jr. (New Jersey)	
Williams, John J. (Delaware)	
Senate Finance Committee amendment to strike section 219, capital gains and losses, from the House-passed bill-----	2860-2884
Douglas, Paul H. (Illinois)	
Gore, Albert (Tennessee)	
Humphrey, Hubert H. (Minnesota)	
Javits, Jacob K. (New York)	
Kuchel, Thomas H. (California)	
Lausche, Frank J. (Ohio)	
Long, Russell B. (Louisiana)	
Miller, Jack R. (Iowa)	
Morton, Thruston B. (Kentucky)	
Ribicoff, Abraham A. (Connecticut)	
Smathers, George A. (Florida)	
Group term life insurance—exclusion (Senator Gore)-----	2884-2891
Anderson, Clinton P. (New Mexico)	
Bennett, Wallace F. (Utah)	
Gore, Albert (Tennessee)	
Javits, Jacob K. (New York)	
Long, Russell B. (Louisiana)	
Ribicoff, Abraham A. (Connecticut)	

ALPHABETICAL LISTING OF MEMBERS OF CONGRESS WITH CROSS-REFERENCES TO FLOOR DEBATES (IN- CLUDING EXTENSION OF REMARKS)—Continued

<i>Subject and Members of the Senate—Continued</i>		Page Nos. (of this document)
Earned income of U.S. citizens abroad (Senator Gore)-----		2891-2907
Aiken, George D. (Vermont)		
Bennett, Wallace F. (Utah)		
Byrd, Harry Flood (Virginia)		
Clark, Joseph S. (Pennsylvania)		
Curtis, Carl T. (Nebraska)		
Douglas, Paul H. (Illinois)		
Gore, Albert (Tennessee)		
Gruening, Ernest (Alaska)		
Holland, Spessard L. (Florida)		
Jordan, B. Everett (North Carolina)		
Lausche, Frank J. (Ohio)		
Long, Russell B. (Louisiana)		
Tax credit for higher education (Senator Ribicoff)-----	2907-2994, 3065-3066	
Aiken, George D. (Vermont)		
Anderson, Clinton P. (New Mexico)		
Beall, J. Glenn (Maryland)		
Bennett, Wallace F. (Utah)		
Brewster, Daniel B. (Maryland)		
Carlson, Frank (Kansas)		
Clark, Joseph S. (Pennsylvania)		
Cooper, John Sherman (Kentucky)		
Cotton, Norris (New Hampshire)		
Curtis, Carl T. (Nebraska)		
Dodd, Thomas J. (Connecticut)		
Dominick, Peter H. (Colorado)		
Edmondson, J. Howard (Oklahoma)		
Fulbright, J. W. (Arkansas)		
Gore, Albert (Tennessee)		
Hart, Philip A. (Michigan)		
Hartke, Vance (Indiana)		
Keating, Kenneth B. (New York)		
Lausche, Frank J. (Ohio)		
Long, Russell B. (Louisiana)		
McCarthy, Eugene J. (Minnesota)		
McGee, Gale W. (Wyoming)		
McIntyre, Thomas J. (New Hampshire)		
Mansfield, Mike (Montana)		
Miller, Jack R. (Iowa)		
Morse, Wayne (Oregon)		
Morton, Thruston B. (Kentucky)		
Muskie, Edmund S. (Maine)		
Pastore, John O. (Rhode Island)		
Prouty, Winston L. (Vermont)		
Randolph, Jennings (West Virginia)		
Ribicoff, Abraham A. (Connecticut)		
Scott, Hugh (Pennsylvania)		
Smathers, George A. (Florida)		
Symington, Stuart (Missouri)		
Tower, John G. (Texas)		
Williams, John J. (Delaware)		
Young, Milton R. (North Dakota)		
Tax deduction for higher education (Senator Prouty)-----	2994-3012, 3018-3022	
Aiken, George D. (Vermont)		
Anderson, Clinton P. (New Mexico)		
Clark, Joseph S. (Pennsylvania)		
Cooper, John Sherman (Kentucky)		
Dominick, Peter H. (Colorado)		
Gruening, Ernest (Alaska)		
Holland, Spessard L. (Florida)		
Javits, Jacob K. (New York)		

ALPHABETICAL LISTING OF MEMBERS OF CONGRESS WITH CROSS-REFERENCES TO FLOOR DEBATES (IN- CLUDING EXTENSION OF REMARKS)—Continued

<i>Subject and Members of the Senate</i> —Continued	Page Nos. (of this document)
Tax deduction, etc. (Senator Prouty)—Continued	
Kuchel, Thomas H. (California)	
Long, Russell B. (Louisiana)	
McCarthy, Eugene J. (Minnesota)	
Mansfield, Mike (Montana)	
Miller, Jack R. (Iowa)	
Morse, Wayne (Oregon)	
Pastore, John O. (Rhode Island)	
Prouty, Winston L. (Vermont)	
Ribicoff, Abraham A. (Connecticut)	
Saltonstall, Leverett (Massachusetts)	
Scott, Hugh (Pennsylvania)	
Smathers, George A. (Florida)	
Tower, John G. (Texas)	
Williams, John J. (Delaware)	
Personal exemptions (Senator Gore)-----	3022-3047
Anderson, Clinton P. (New Mexico)	
Curtis, Carl T. (Nebraska)	
Douglas, Paul H. (Illinois)	
Ervin, Sam, Jr. (North Carolina)	
Gore, Albert (Tennessee)	
Gruening, Ernest (Alaska)	
Hartke, Vance (Indiana)	
Kuchel, Thomas H. (California)	
Lausche, Frank J. (Ohio)	
Long, Russell B. (Louisiana)	
Mansfield, Mike (Montana)	
Miller, Jack R. (Iowa)	
Morton, Thruston B. (Kentucky)	
Pastore, John O. (Rhode Island)	
Proxmire, William (Wisconsin)	
Smathers, George A. (Florida)	
Minimum standard deduction (Senator Douglas)-----	3047-3051, 3085-3098
Aiken, George D. (Vermont)	
Anderson, Clinton P. (New Mexico)	
Bennett, Wallace F. (Utah)	
Douglas, Paul H. (Illinois)	
Ervin, Sam J., Jr. (North Carolina)	
Gruening, Ernest (Alaska)	
Hruska, Roman L. (Nebraska)	
Humphrey, Hubert H. (Minnesota)	
Kuchel, Thomas H. (California)	
Lausche, Frank J. (Ohio)	
Long, Russell B. (Louisiana)	
Mansfield, Mike (Montana)	
Morton, Thruston B. (Kentucky)	
Proxmire, William (Wisconsin)	
Ribicoff, Abraham A. (Connecticut)	
Smathers, George A. (Florida)	
Excise tax—Cabarets (Senator Proxmire)-----	3051, 3440-3451
Bible, Alan (Nevada)	
Carlson, Frank (Kansas)	
Douglas, Paul H. (Illinois)	
Fong, Hiram L. (Hawaii)	
Gore, Albert (Tennessee)	
Hart, Philip A. (Michigan)	
Keating, Kenneth B. (New York)	
Lausche, Frank J. (Ohio)	
Long, Russell B. (Louisiana)	
McNamara, Pat (Michigan)	
Magnuson, Warren G. (Washington)	

ALPHABETICAL LISTING OF MEMBERS OF CONGRESS WITH CROSS-REFERENCES TO FLOOR DEBATES (IN- CLUDING EXTENSION OF REMARKS)—Continued

Subject and Members of the Senate—Continued

Page Nos.
(of this
document)

Excise tax—Cabarets (Senator Proxmire)—Continued

Mansfield, Mike (Montana)
Morton, Thruston B. (Kentucky)
Proxmire, William (Wisconsin)
Simpson, Milward L. (Wyoming)
Smathers, George A. (Florida)

Dividend credit (Senators Morton and Dirksen)----- 3051-3065, 3212-3215

Beall, J. Glenn (Maryland)
Carlson, Frank (Kansas)
Curtis, Carl T. (Nebraska)
Holland, Spessard L. (Florida)
Hruska, Roman L. (Nebraska)
Kuchel, Thomas H. (California)
McCarthy, Eugene J. (Minnesota)
Mansfield, Mike (Montana)
Morton, Thruston B. (Kentucky)
Pastore, John O. (Rhode Island)

Investment credit—Regulatory agencies----- 3066-3079, 3125-3212, 3230-3231, 3354-3359

Aiken, George D. (Vermont)
Anderson, Clinton P. (New Mexico)
Carlson, Frank (Kansas)
Church, Frank (Idaho)
Cooper, John Sherman (Kentucky)
Douglas, Paul H. (Illinois)
Gore, Albert (Tennessee)
Gruening, Ernest (Alaska)
Humphrey, Hubert H. (Minnesota)
Javits, Jacob K. (New York)
Kuchel, Thomas H. (California)
Lausche, Frank J. (Ohio)
Long, Russell B. (Louisiana)
McCarthy, Eugene J. (Minnesota)
McClellan, John L. (Arkansas)
McGovern, George (South Dakota)
McNamara, Pat (Michigan)
Magnuson, Warren G. (Washington)
Mansfield, Mike (Montana)
Metcalf, Lee (Montana)
Miller, Jack R. (Iowa)
Monroney, A. S. Mike (Oklahoma)
Morse, Wayne (Oregon)
Morton, Thruston B. (Kentucky)
Nelson, Gaylord (Wisconsin)
Pastore, John O. (Rhode Island)
Pell, Claiborne (Rhode Island)
Proxmire, William (Wisconsin)
Saltonstall, Leverett (Massachusetts)
Simpson, Milward L. (Wyoming)
Smathers, George A. (Florida)
Symington, Stuart (Missouri)
Talmadge, Herman E. (Georgia)
Tower, John G. (Texas)
Williams, John J. (Delaware)

Additional exemption for blind dependent (Senator Hartke)----- 3081-3083

Anderson, Clinton P. (New Mexico)
Hartke, Vance (Indiana)
Mansfield, Mike (Montana)
Randolph, Jennings (West Virginia)

Premiums for flood insurance (Senator Carlson)----- 3083-3085

Anderson, Clinton P. (New Mexico)
Carlson, Frank (Kansas)

ALPHABETICAL LISTING OF MEMBERS OF CONGRESS WITH CROSS-REFERENCES TO FLOOR DEBATES (IN- CLUDING EXTENSION OF REMARKS)—Continued

Subject and Members of the Senate—Continued

Page Nos.
(of this
document)

Excise tax—Jewelry, furs, toilet preparations, and luggage (Senators Morton and Dirksen)-----	3089-3125
Allott, Gordon (Colorado)	
Beall, J. Glenn (Maryland)	
Bennett, Wallace F. (Utah)	
Byrd, Harry Flood (Virginia)	
Carlson, Frank (Kansas)	
Curtis, Carl T. (Nebraska)	
Douglas, Paul H. (Illinois)	
Fulbright, J. W. (Arkansas)	
Gore, Albert (Tennessee)	
Hartke, Vance (Indiana)	
Hruska, Roman L. (Nebraska)	
Humphrey, Hubert H. (Minnesota)	
Javits, Jacob K. (New York)	
Lausche, Frank J. (Ohio)	
Long, Russell B. (Louisiana)	
McCarthy, Eugene J. (Minnesota)	
Magnuson, Warren G. (Washington)	
Mansfield, Mike (Montana)	
Morse, Wayne (Oregon)	
Morton, Thruston B. (Kentucky)	
Pastore, John O. (Rhode Island)	
Proxmire, William (Wisconsin)	
Simpson, Milward L. (Wyoming)	
Smathers, George A. (Florida)	
Excise tax—Mechanical pencils and pens (Senators Dirksen and Hickenlooper)-----	3216-3221
Aiken, George D. (Vermont)	
Anderson, Clinton P. (New Mexico)	
Bennett, Wallace F. (Utah)	
Carlson, Frank (Kansas)	
Hickenlooper, Bourke B. (Iowa)	
Humphrey, Hubert H. (Minnesota)	
Mansfield, Mike (Montana)	
Ribicoff, Abraham A. (Connecticut)	
Scott, Hugh (Pennsylvania)	
Smathers, George A. (Florida)	
Sparkman, John (Alabama)	
Excise tax—Musical instruments (Senator Hartke)-----	3221-3222
Hartke, Vance (Indiana)	
Smathers, George A. (Florida)	
Head of household (Senator McCarthy)-----	3222-3227, 3233-3248
Anderson, Clinton P. (New Mexico)	
Carlson, Frank (Kansas)	
Clark, Joseph S. (Pennsylvania)	
Eastland, James O. (Mississippi)	
Gruening, Ernest (Alaska)	
Javits, Jacob K. (New York)	
Keating, Kenneth B. (New York)	
Long, Russell B. (Louisiana)	
McCarthy, Eugene J. (Minnesota)	
Mansfield, Mike (Montana)	
Miller, Jack R. (Iowa)	
Morton, Thruston B. (Kentucky)	
Neuberger, Maurine B. (Oregon)	
Pastore, John O. (Rhode Island)	
Randolph, Jennings (West Virginia)	
Robertson, A. Willis (Virginia)	
Smathers, George A. (Florida)	

ALPHABETICAL LISTING OF MEMBERS OF CONGRESS WITH CROSS-REFERENCES TO FLOOR DEBATES (IN- CLUDING EXTENSION OF REMARKS)—Continued

<i>Subject and Members of the Senate—Continued</i>	Page Nos. (of this document)
Percentage depletion rates for oil and gas wells; three-step reduction in (Senator Williams of Delaware)-----	3248-3303
Aiken, George D. (Vermont)	
Allott, Gordon (Colorado)	
Anderson, Clinton P. (New Mexico)	
Carlson, Frank (Kansas)	
Dominick, Peter H. (Colorado)	
Edmondson, J. Howard (Oklahoma)	
Javits, Jacob K. (New York)	
Lausche, Frank J. (Ohio)	
Long, Russell B. (Louisiana)	
McGee, Gale W. (Wyoming)	
Mechem, Edwin L. (New Mexico)	
Miller, Jack R. (Iowa)	
Monroney, A. S. Mike (Oklahoma)	
Pearson, James B. (Kansas)	
Proxmire, William (Wisconsin)	
Randolph, Jennings (West Virginia)	
Simpson, Milward L. (Wyoming)	
Stennis, John (Mississippi)	
Tower, John G. (Texas)	
Williams, John J. (Delaware)	
Young, Stephen M. (Ohio)	
Excise tax—Tickets to live dramatic or musical performances (Senator Javits)-----	3303-3317
Anderson, Clinton P. (New Mexico)	
Javits, Jacob K. (New York)	
Long, Russell B. (Louisiana)	
Morton, Thruston B. (Kentucky)	
Smathers, George A. (Florida)	
Percentage depletion rates for oil and gas wells; reduction in (Senator Douglas)-----	3317-3354
Anderson, Clinton P. (New Mexico)	
Carlson, Frank (Kansas)	
Clark, Joseph S. (Pennsylvania)	
Douglas, Paul H. (Illinois)	
Edmondson, J. Howard (Oklahoma)	
Gore, Albert (Tennessee)	
Long, Russell B. (Louisiana)	
McGee, Gale W. (Wyoming)	
Monroney, A. S. Mike (Oklahoma)	
Proxmire, William (Wisconsin)	
Randolph, Jennings (West Virginia)	
Simpson, Milward L. (Wyoming)	
Talmadge, Herman E. (Georgia)	
Wage continuation payments (Senator McCarthy)-----	3359-3361
Humphrey, Hubert H. (Minnesota)	
Keating, Kenneth B. (New York)	
McCarthy, Eugene J. (Minnesota)	
Morton, Thruston B. (Kentucky)	
Smathers, George A. (Florida)	
Excise tax—Purses and handbags (Senator Keating)-----	3361, 3364-3367
Allott, Gordon (Colorado)	
Javits, Jacob K. (New York)	
Keating, Kenneth B. (New York)	
Long, Russell B. (Louisiana)	
Morton, Thruston B. (Kentucky)	
Smathers, George A. (Florida)	
Williams, John J. (Delaware)	

ALPHABETICAL LISTING OF MEMBERS OF CONGRESS WITH CROSS-REFERENCES TO FLOOR DEBATES (IN- CLUDING EXTENSION OF REMARKS)—Continued

Subject and Members of the Senate—Continued

Page Nos.
(of this
document)

Deduction to lessee of residential land of certain real property tax paid by him (Senator Fong)-----	3367-3369
Anderson, Clinton P. (New Mexico)	
Bennett, Wallace F. (Utah)	
Byrd, Harry Flood (Virginia)	
Carlson, Frank (Kansas)	
Fong, Hiram L. (Hawaii)	
Long, Russell B. (Louisiana)	
Williams, John J. (Delaware)	
Interest on indebtedness incurred or continued to purchase or carry tax-exempt bonds (Senator Williams of Delaware)-----	3369-3377
Anderson, Clinton P. (New Mexico)	
Bennett, Wallace F. (Utah)	
Gore, Albert (Tennessee)	
Lausche, Frank J. (Ohio)	
Long, Russell B. (Louisiana)	
McCarthy, Eugene J. (Minnesota)	
Williams, John J. (Delaware)	
Investment credit; adjustment of basis under (Senator Proxmire)---	3377-3382
Aiken, George D. (Vermont)	
Anderson, Clinton P. (New Mexico)	
Bennett, Wallace F. (Utah)	
Carlson, Frank (Kansas)	
Ervin, Sam J., Jr. (North Carolina)	
Long, Russell B. (Louisiana)	
Miller, Jack R. (Iowa)	
Pastore, John O. (Rhode Island)	
Proxmire, William (Wisconsin)	
Smathers, George A. (Florida)	
Restricted stock options; termination of preferential tax treatment (Senator Gore)-----	3382-3410, 3420-3435, 3451-3453
Bennett, Wallace F. (Utah)	
Gore, Albert (Tennessee)	
Hart, Philip A. (Michigan)	
Javits, Jacob K. (New York)	
Keating, Kenneth B. (New York)	
Kuchel, Thomas H. (California)	
Long, Russell B. (Louisiana)	
Morton, Thruston B. (Kentucky)	
Pastore, John O. (Rhode Island)	
Smathers, George A. (Florida)	
Deduction—Losses of personal residences seized by Cuba (Senator Williams of Delaware)-----	3411-3412
Long, Russell B. (Louisiana)	
Smathers, George A. (Florida)	
Williams, John J. (Delaware)	
Extension of time for payment of estate tax on value of reversionary or remainder interest in property (Senator Smathers)-----	3412-3413
Long, Russell B. (Louisiana)	
Smathers, George A. (Florida)	
Williams, John J. (Delaware)	
Credit or refund of self-employment tax (Senator Kuchel)-----	3413-3415
Gore, Albert (Tennessee)	
Kuchel, Thomas H. (California)	
Technical amendments-----	3411, 3415-3418, 3453, 3488
Bennett, Wallace F. (Utah)	
Carlson, Frank (Kansas)	
Javits, Jacob K. (New York)	
Long, Russell B. (Louisiana)	
Smathers, George A. (Florida)	
Williams, John J. (Delaware)	

ALPHABETICAL LISTING OF MEMBERS OF CONGRESS WITH CROSS-REFERENCES TO FLOOR DEBATES (IN- CLUDING EXTENSION OF REMARKS)—Continued

<i>Subject and Members of the Senate—Continued</i>	Page Nos. (of this document)
Group term insurance (Senator Long)-----	3418
Gore, Albert (Tennessee)	
Long, Russell B. (Louisiana)	
Smathers, George A. (Florida)	
Crop insurance proceeds (Senator Williams of Delaware)-----	3418-3420
Long, Russell B. (Louisiana)	
Miller, Jack R. (Iowa)	
Williams, John J. (Delaware)	
Excise tax—Rebuilt automotive parts (Senator Dirksen)-----	3435-3438
Carlson, Frank (Kansas)	
Long, Russell B. (Louisiana)	
Capital loss carryover—Individuals (Senator Dirksen)-----	3438-3440
Long, Russell B. (Louisiana)	
Morton, Thruston B. (Kentucky)	
Smathers, George A. (Florida)	
Termination of tax reduction (Senator McClellan)-----	3367, 3453-3482
Aiken, George D. (Vermont)	
Cotton, Norris (New Hampshire)	
Dominick, Peter H. (Colorado)	
Ervin, Sam J., Jr. (North Carolina)	
Gruening, Ernest (Alaska)	
Hruska, Roman L. (Nebraska)	
Javits, Jacob K. (New York)	
Kuchel, Thomas H. (California)	
Lausche, Frank J. (Ohio)	
Long, Russell B. (Louisiana)	
McClellan, John L. (Arkansas)	
Mansfield, Mike (Montana)	
Miller, Jack R. (Iowa)	
Morton, Thruston B. (Kentucky)	
Mundt, Karl E. (South Dakota)	
Pastore, John O. (Rhode Island)	
Smathers, George A. (Florida)	
Thurmond, Strom (South Carolina)	
Williams, John J. (Delaware)	
Small business amendments (Senator Sparkman)-----	3482-3486
Long, Russell B. (Louisiana)	
Randolph, Jennings (West Virginia)	
Saltonstall, Leverett (Massachusetts)	
Sparkman, John (Alabama)	
Deduction for expenses of transportation of disabled individuals (Senator Sparkman)-----	3486-3487
Anderson, Clinton P. (New Mexico)	
Johnston, Olin D. (South Carolina)	
Keating, Kenneth B. (New York)	
Smathers, George A. (Florida)	
Sparkman, John (Alabama)	
Time for filing claim for refund of taxes paid for gasoline used on farms (Senator Young of North Dakota)-----	3487-3488
Smathers, George A. (Florida)	
Williams, John J. (Delaware)	
Excise tax—Certain silver-plated hollowware (Senator Saltonstall)---	3488-3489, 3499-3501, 3508-3509
Dodd, Thomas J. (Connecticut)	
Keating, Kenneth B. (New York)	
Long, Russell B. (Louisiana)	
Pastore, John O. (Rhode Island)	
Pell, Claiborne (Rhode Island)	
Ribicoff, Abraham A. (Connecticut)	
Saltonstall, Leverett (Massachusetts)	

ALPHABETICAL LISTING OF MEMBERS OF CONGRESS WITH CROSS-REFERENCES TO FLOOR DEBATES (IN- CLUDING EXTENSION OF REMARKS)—Continued

Subject and Members of the Senate—Continued

Page Nos.
(of this
document)

Corporations improperly accumulating surplus (Senator Miller)	3491-3492
Long, Russell B. (Louisiana)	
Miller, Jack R. (Iowa)	
Estate and gift tax treatment of employees' survivors annuities under State and local retirement systems (Senator Yarborough)	3492-3495
Bartlett, E. L. (Bob) (Alaska)	
Long, Russell B. (Louisiana)	
Yarborough, Ralph W. (Texas)	
Amortization of housing facilities for agricultural workers (Senator Williams of New Jersey)	3495-3499
Byrd, Harry Flood (Virginia)	
Williams, Harrison A., Jr. (New Jersey)	
Multiple corporations (Senator Miller)	3501-3502
Long, Russell B. (Louisiana)	
Miller, Jack R. (Iowa)	
Water or air pollution (Senator Ribicoff)	3502-3508
Bartlett, E. L. (Bob) (Alaska)	
Hart, Philip A. (Michigan)	
Javits, Jacob K. (New York)	
Keating, Kenneth B. (New York)	
Long, Russell B. (Louisiana)	
Muskie, Edmund S. (Maine)	
Pastore, John O. (Rhode Island)	
Pell, Claiborne (Rhode Island)	
Randolph, Jennings (West Virginia)	
Ribicoff, Abraham A. (Connecticut)	
Saltonstall, Leverett (Massachusetts)	
Smathers, George A. (Florida)	

C. HOUSE FLOOR DEBATE ON CONFERENCE REPORT

Members of the House

Alger, Bruce (Texas)	4197
Becker, Frank J. (New York)	4183-4184, 4186
Betts, Jackson E. (Ohio)	4191
Bray, William G. (Indiana)	4190-4191
Broyhill, Joel T. (Virginia)	4182-4183
Byrnes, John W. (Wisconsin)	4182, 4183-4186
Chamberlain, Charles E. (Michigan)	4194-4195
Curtis, Thomas B. (Missouri)	4179-4181
Donohue, Harold D. (Massachusetts)	4195
Fino, Paul A. (New York)	4192-4193
Gray, Kenneth J. (Illinois)	4189-4190
Griffiths, Martha W. (Michigan)	4150-4151
Gross, H. R. (Iowa)	4178
Halleck, Charles A. (Indiana)	4150
Jones, Paul C. (Missouri)	4178
Knox, Victor A. (Michigan)	4152, 4181-4182
Laird, Melvin R. (Wisconsin)	4178
Latta, Delbert L. (Ohio)	4195
Lennon, Alton (North Carolina)	4191
Libonati, Roland V. (Illinois)	4188-4189
Martin, Patrick Minor (California)	4188
Michel, Robert H. (Illinois)	4182
Mills, Wilbur D. (Arkansas)	4149-4182, 4184, 4188, 4198
Osmers, Frank C., Jr. (New Jersey)	4197
Patman, Wright (Texas)	4198
Phibin, Philip J. (Massachusetts)	4196-4197
Quie, Albert H. (Minnesota)	4193-4194
Schwengel, Fred (Iowa)	4191
Smith, Neal (Iowa)	4193

ALPHABETICAL LISTING OF MEMBERS OF CONGRESS WITH CROSS-REFERENCES TO FLOOR DEBATES (IN- CLUDING EXTENSION OF REMARKS)—Continued

Members of the House—Continued

Page Nos.
(of this
document)

Stratton, Samuel S. (New York)-----	4185, 4186
Taft, Robert, Jr. (Ohio)-----	4194
Vanik, Charles A. (Ohio)-----	4151-4152
Wyman, Louis C. (New Hampshire)-----	4186-4188

D. SENATE FLOOR DEBATE ON CONFERENCE REPORT

Members of the Senate

Beall, J. Glenn (Maryland)-----	4213-4214
Carlson, Frank (Kansas)-----	4212, 4215-4216
Curtis, Carl T. (Nebraska)-----	4235
Dirksen, Everett McKinley (Illinois)-----	4221-4223
Gore, Albert (Tennessee)-----	4204, 4211, 4218-4221, 4223
Humphrey, Hubert H. (Minnesota)-----	4236
Johnston, Olin D. (South Carolina)-----	4213
Kuchel, Thomas H. (California)-----	4236
Long, Russell B. (Louisiana)-----	4203-4215, 4220, 4221, 4222-4225, 4226-4229
McClellan, John L. (Arkansas)-----	4216-4218
Mansfield, Mike (Montana)-----	4235, 4236
Miller, Jack R. (Iowa)-----	4225-4230
Neuberger, Maurine B. (Oregon)-----	4236
Randolph, Jennings (West Virginia)-----	4214-4215
Smathers, George A. (Florida)-----	4230-4235
Sparkman, John (Alabama)-----	4212-4213

(XX)

ILL. REV. STAT.

SECTION 19

BILL AS PASSED BY THE SENATE WITH AMENDMENTS
OF THE SENATE NUMBERED

3545

H. R. 8363

IN THE SENATE OF THE UNITED STATES

FEBRUARY 7, 1964

Ordered to be printed with the amendments of the Senate numbered

AN ACT

To amend the Internal Revenue Code of 1954 to reduce individual and corporate income taxes, to make certain structural changes with respect to the income tax, and for other purposes.

1 *Be it enacted by the Senate and House of Representa-*
2 *tives of the United States of America in Congress assembled,*

3 **(1)SECTION 1. DECLARATION BY CONGRESS.**

4 It is the sense of Congress that the tax reduction pro-
5 vided by this Act through stimulation of the economy, will,
6 after a brief transitional period, raise (rather than lower)
7 revenues and that such revenue increases should first be
8 used to eliminate the deficits in the administrative budgets

II

1 and then to reduce the public debt. To further the objective
 2 of obtaining balanced budgets in the near future, Congress
 3 by this action, recognizes the importance of taking all reason-
 4 able means to restrain Government spending and urges the
 5 President to declare his accord with this objective.

6 **(2) SEC. 2 SECTION 1. SHORT TITLE, ETC.**

7 (a) SHORT TITLE.—This Act may be cited as the
 8 “Revenue Act of **(3)** 1963 1964”.

9 (b) AMENDMENT OF 1954 CODE.—Except as otherwise
 10 expressly provided, whenever in this Act an amendment or
 11 repeal is expressed in terms of an amendment to, or repeal
 12 of, a section or other provision, the reference shall be con-
 13 sidered to be made to a section or other provision of the
 14 Internal Revenue Code of 1954.

15 **Title I—Reduction Of Income Tax Rates**
 16 **And Related Amendments**

17 **PART I—INDIVIDUALS**

18 **SEC. 111. REDUCTION OF TAX ON INDIVIDUALS.**

19 (a) INDIVIDUALS OTHER THAN HEADS OF HOUSE-
 20 HOLDS.—Subsection (a) of section 1 (relating to rates of tax
 21 on individuals other than heads of households) is amended
 22 to read as follows:

23 “(a) RATES OF TAX ON INDIVIDUALS.—

24 “(1) TAXABLE YEARS BEGINNING IN 1964.—In
 25 the case of a taxable year beginning on or after January

1 1, 1964, and before January 1, 1965, there is hereby im-
 2 posed on the taxable income of every individual (other
 3 than a head of a household to whom subsection (b) ap-
 4 plies) a tax determined in accordance with the follow-
 5 ing table:

"If the taxable income is:	The tax is:
Not over \$500-----	16% of the taxable income.
Over \$500 but not over \$1,000-----	\$80, plus 16.5% of excess over \$500.
Over \$1,000 but not over \$1,500-----	\$162.50, plus 17.5% of excess over \$1,000.
Over \$1,500 but not over \$2,000-----	\$250, plus 18% of excess over \$1,500.
Over \$2,000 but not over \$4,000-----	\$340, plus 20% of excess over \$2,000.
Over \$4,000 but not over \$6,000-----	\$740, plus 23.5% of excess over \$4,000.
Over \$6,000 but not over \$8,000-----	\$1,210, plus 27% of excess over \$6,000.
Over \$8,000 but not over \$10,000-----	\$1,750, plus 30.5% of excess over \$8,000.
Over \$10,000 but not over \$12,000----	\$2,360, plus 34% of excess over \$10,000.
Over \$12,000 but not over \$14,000----	\$3,040, plus 37.5% of excess over \$12,000.
Over \$14,000 but not over \$16,000----	\$3,790, plus 41% of excess over \$14,000.
Over \$16,000 but not over \$18,000----	\$4,610, plus 44.5% of excess over \$16,000.
Over \$18,000 but not over \$20,000----	\$5,500, plus 47.5% of excess over \$18,000.
Over \$20,000 but not over \$22,000----	\$6,450, plus 50.5% of excess over \$20,000.
Over \$22,000 but not over \$26,000----	\$7,460, plus 53.5% of excess over \$22,000.
Over \$26,000 but not over \$32,000----	\$9,600, plus 56% of excess over \$26,000.
Over \$32,000 but not over \$38,000----	\$12,960, plus 58.5% of excess over \$32,000.
Over \$38,000 but not over \$44,000----	\$16,470, plus 61% of excess over \$38,000.
Over \$44,000 but not over \$50,000----	\$20,130, plus 63.5% of excess over \$44,000.
Over \$50,000 but not over \$60,000----	\$23,940, plus 66% of excess over \$50,000.
Over \$60,000 but not over \$70,000----	\$30,540, plus 68.5% of excess over \$60,000.
Over \$70,000 but not over \$80,000----	\$37,390, plus 71% of excess over \$70,000.

"If the taxable income is:**The tax is:**

Over \$80,000 but not over \$90,000----	\$44,490, plus 73.5% of excess over \$80,000.
Over \$90,000 but not over \$100,000---	\$51,840, plus 75% of excess over \$90,000.
Over \$100,000 but not over \$200,000--	\$59,340, plus 76.5% of excess over \$100,000.
Over \$200,000-----	\$135,840, plus 77% of excess over \$200,000.

1 “(2) TAXABLE YEARS BEGINNING AFTER DECEM-
2 BER 31, 1964.—In the case of a taxable year beginning
3 after December 31, 1964, there is hereby imposed on
4 the taxable income of every individual (other than a
5 head of a household to whom subsection (b) applies) a
6 tax determined in accordance with the following table:

"If the taxable income is:**The tax is:**

Not over \$500-----	14% of the taxable income.
Over \$500 but not over \$1,000-----	\$70, plus 15% of excess over \$500.
Over \$1,000 but not over \$1,500-----	\$145, plus 16% of excess over \$1,000.
Over \$1,500 but not over \$2,000-----	\$225, plus 17% of excess over \$1,500.
Over \$2,000 but not over \$4,000-----	\$310, plus 19% of excess over \$2,000.
Over \$4,000 but not over \$6,000-----	\$690, plus 22% of excess over \$4,000.
Over \$6,000 but not over \$8,000-----	\$1,130, plus 25% of excess over \$6,000.
Over \$8,000 but not over \$10,000-----	\$1,630, plus 28% of excess over \$8,000.
Over \$10,000 but not over \$12,000----	\$2,190, plus 32% of excess over \$10,000.
Over \$12,000 but not over \$14,000----	\$2,830, plus 36% of excess over \$12,000.
Over \$14,000 but not over \$16,000----	\$3,550, plus 39% of excess over \$14,000.
Over \$16,000 but not over \$18,000----	\$4,330, plus 42% of excess over \$16,000.
Over \$18,000 but not over \$20,000----	\$5,170, plus 45% of excess over \$18,000.
Over \$20,000 but not over \$22,000----	\$6,070, plus 48% of excess over \$20,000.
Over \$22,000 but not over \$26,000----	\$7,030, plus 50% of excess over \$22,000.
Over \$26,000 but not over \$32,000----	\$9,030, plus 53% of excess over \$26,000.
Over \$32,000 but not over \$38,000----	\$12,210, plus 55% of excess over \$32,000.

"If the taxable income is:**The tax is:**

Over \$38,000 but not over \$44,000----	\$15,510, plus 58% of excess over \$38,000.
Over \$44,000 but not over \$50,000----	\$18,990, plus 60% of excess over \$44,000.
Over \$50,000 but not over \$60,000----	\$22,590, plus 62% of excess over \$50,000.
Over \$60,000 but not over \$70,000----	\$28,790, plus 64% of excess over \$60,000.
Over \$70,000 but not over \$80,000----	\$35,190, plus 66% of excess over \$70,000.
Over \$80,000 but not over \$90,000----	\$41,790, plus 68% of excess over \$80,000.
Over \$90,000 but not over \$100,000---	\$48,590, plus 69% of excess over \$90,000.
Over \$100,000-----	\$55,490, plus 70% of excess over \$100,000."

1 (b) HEADS OF HOUSEHOLDS.—Paragraph (1) of sec-
2 tion 1 (b) (relating to rates of tax on heads of households)
3 is amended to read as follows:

4 " (1) RATES OF TAX.—

5 " (A) TAXABLE YEARS BEGINNING IN 1964.—

6 In the case of a taxable year beginning on or after
7 January 1, 1964, and before January 1, 1965,
8 there is hereby imposed on the taxable income of
9 every individual who is the head of a household a
10 tax determined in accordance with the following
11 table:

"If the taxable income is:**The tax is:**

Not over \$1,000-----	16% of the taxable income.
Over \$1,000 but not over \$2,000----	\$160, plus 17.5% of excess over \$1,000.
Over \$2,000 but not over \$4,000-----	\$335, plus 19% of excess over \$2,000.
Over \$4,000 but not over \$6,000-----	\$715, plus 22% of excess over \$4,000.
Over \$6,000 but not over \$8,000-----	\$1,155, plus 23% of excess over \$6,000.
Over \$8,000 but not over \$10,000-----	\$1,615, plus 27% of excess over \$8,000.
Over \$10,000 but not over \$12,000----	\$2,155, plus 29% of excess over \$10,000.

"If the taxable income is:**The tax is:**

Over \$12,000 but not over \$14,000----	\$2,735, plus 32% of excess over \$12,000.
Over \$14,000 but not over \$16,000----	\$3,375, plus 34% of excess over \$14,000.
Over \$16,000 but not over \$18,000----	\$4,055, plus 37.5% of excess over \$16,000.
Over \$18,000 but not over \$20,000----	\$4,805, plus 39% of excess over \$18,000.
Over \$20,000 but not over \$22,000----	\$5,585, plus 42.5% of excess over \$20,000.
Over \$22,000 but not over \$24,000----	\$6,435, plus 43.5% of excess over \$22,000.
Over \$24,000 but not over \$26,000----	\$7,305, plus 45.5% of excess over \$24,000.
Over \$26,000 but not over \$28,000----	\$8,215, plus 47% of excess over \$26,000.
Over \$28,000 but not over \$32,000----	\$9,155, plus 48.5% of excess over \$28,000.
Over \$32,000 but not over \$36,000----	\$11,095, plus 51.5% of excess over \$32,000.
Over \$36,000 but not over \$38,000----	\$13,155, plus 53% of excess over \$36,000.
Over \$38,000 but not over \$40,000----	\$14,215, plus 54% of excess over \$38,000.
Over \$40,000 but not over \$44,000----	\$15,295, plus 56% of excess over \$40,000.
Over \$44,000 but not over \$50,000----	\$17,535, plus 58.5% of excess over \$44,000.
Over \$50,000 but not over \$52,000----	\$21,045, plus 59.5% of excess over \$50,000.
Over \$52,000 but not over \$60,000----	\$22,235, plus 61% of excess over \$52,000.
Over \$60,000 but not over \$64,000----	\$27,115, plus 62% of excess over \$60,000.
Over \$64,000 but not over \$70,000----	\$29,595, plus 63.5% of excess over \$64,000.
Over \$70,000 but not over \$76,000----	\$33,405, plus 65% of excess over \$70,000.
Over \$76,000 but not over \$80,000----	\$37,305, plus 66% of excess over \$76,000.
Over \$80,000 but not over \$88,000----	\$39,945, plus 67% of excess over \$80,000.
Over \$88,000 but not over \$90,000----	\$45,305, plus 69% of excess over \$88,000.
Over \$90,000 but not over \$100,000---	\$46,685, plus 69.5% of excess over \$90,000.
Over \$100,000 but not over \$120,000--	\$53,635, plus 71% of excess over \$100,000.
Over \$120,000 but not over \$140,000--	\$67,835, plus 72.5% of excess over \$120,000.
Over \$140,000 but not over \$160,000--	\$82,335, plus 74% of excess over \$140,000.
Over \$160,000 but not over \$180,000--	\$97,135, plus 75% of excess over \$160,000.
Over \$180,000 but not over \$200,000--	\$112,135, plus 75.5% of excess over \$180,000.
Over \$200,000-----	\$127,235, plus 77% of excess over \$200,000.

“(B) TAXABLE YEARS BEGINNING AFTER

DECEMBER 31, 1964.—In the case of a taxable year

beginning after December 31, 1964, there is hereby

imposed on the taxable income of every individual

who is the head of a household a tax determined in

accordance with the following table:

“If the taxable income is:	The tax is:
Not over \$1,000-----	14% of the taxable income.
Over \$1,000 but not over \$2,000-----	\$140, plus 16% of excess over \$1,000.
Over \$2,000 but not over \$4,000-----	\$300, plus 18% of excess over \$2,000.
Over \$4,000 but not over \$6,000-----	\$660, plus 20% of excess over \$4,000.
Over \$6,000 but not over \$8,000-----	\$1,060, plus 22% of excess over \$6,000.
Over \$8,000 but not over \$10,000-----	\$1,500, plus 25% of excess over \$8,000.
Over \$10,000 but not over \$12,000-----	\$2,000, plus 27% of excess over \$10,000.
Over \$12,000 but not over \$14,000-----	\$2,540, plus 31% of excess over \$12,000.
Over \$14,000 but not over \$16,000-----	\$3,160, plus 32% of excess over \$14,000.
Over \$16,000 but not over \$18,000-----	\$3,800, plus 35% of excess over \$16,000.
Over \$18,000 but not over \$20,000-----	\$4,500, plus 36% of excess over \$18,000.
Over \$20,000 but not over \$22,000-----	\$5,220, plus 40% of excess over \$20,000.
Over \$22,000 but not over \$24,000-----	\$6,020, plus 41% of excess over \$22,000.
Over \$24,000 but not over \$26,000-----	\$6,840, plus 43% of excess over \$24,000.
Over \$26,000 but not over \$28,000-----	\$7,700, plus 45% of excess over \$26,000.
Over \$28,000 but not over \$32,000-----	\$8,600, plus 46% of excess over \$28,000.
Over \$32,000 but not over \$36,000-----	\$10,440, plus 48% of excess over \$32,000.
Over \$36,000 but not over \$38,000-----	\$12,360, plus 50% of excess over \$36,000.
Over \$38,000 but not over \$40,000-----	\$13,360, plus 52% of excess over \$38,000.
Over \$40,000 but not over \$44,000-----	\$14,400, plus 53% of excess over \$40,000.
Over \$44,000 but not over \$50,000-----	\$16,520, plus 55% of excess over \$44,000.
Over \$50,000 but not over \$52,000-----	\$19,820, plus 56% of excess over \$50,000.

"If the taxable income is:**The tax is:**

Over \$52,000 but not over \$64,000----	\$20,940, plus 58% of excess over \$52,000.
Over \$64,000 but not over \$70,000----	\$27,900, plus 59% of excess over \$64,000.
Over \$70,000 but not over \$76,000----	\$31,440, plus 61% of excess over \$70,000.
Over \$76,000 but not over \$80,000----	\$35,100, plus 62% of excess over \$76,000.
Over \$80,000 but not over \$88,000----	\$37,580, plus 63% of excess over \$80,000.
Over \$88,000 but not over \$100,000---	\$42,620, plus 64% of excess over \$88,000.
Over \$100,000 but not over \$120,000--	\$50,300, plus 66% of excess over \$100,000.
Over \$120,000 but not over \$140,000--	\$63,500, plus 67% of excess over \$120,000.
Over \$140,000 but not over \$160,000--	\$76,900, plus 68% of excess over \$140,000.
Over \$160,000 but not over \$180,000--	\$90,500, plus 69% of excess over \$160,000.
Over \$180,000-----	\$104,300, plus 70% of excess over \$180,000."

1 SEC. 112. MINIMUM STANDARD DEDUCTION.

2 (a) GENERAL RULE.—Section 141 (relating to standard
3 deduction) is amended to read as follows:

4 "SEC. 141. STANDARD DEDUCTION.

5 " (a) STANDARD DEDUCTION.—Except as otherwise
6 provided in this section, the standard deduction referred to
7 in this title is the larger of the 10-percent standard deduction
8 or the minimum standard deduction. The standard deduc-
9 tion shall not exceed \$1,000, except that in the case of a
10 separate return by a married individual the standard deduc-
11 tion shall not exceed \$500.

12 " (b) TEN-PERCENT STANDARD DEDUCTION.—The 10-
13 percent standard deduction is an amount equal to 10 percent
14 of the adjusted gross income.

1 “(c) MINIMUM STANDARD DEDUCTION.—The mini-
2 mum standard deduction is an amount equal to the sum of—

3 “(1) \$100, multiplied by the number of exemptions
4 allowed for the taxable year as a deduction under section
5 151, plus

6 “(2) (A) \$200, in the case of a joint return of a
7 husband and wife under section 6013,

8 “(B) \$200, in the case of a return of an individual
9 who is not married, or

10 “(C) \$100, in the case of a separate return by a
11 married individual.

12 “(d) MARRIED INDIVIDUALS FILING SEPARATE RE-
13 TURNS.—Notwithstanding subsection (a) —

14 “(1) The minimum standard deduction shall not
15 apply in the case of a separate return by a married in-
16 dividual if the tax of the other spouse is determined with
17 regard to the 10-percent standard deduction.

18 “(2) A married individual filing a separate return
19 may, if the minimum standard deduction is less than the
20 10-percent standard deduction, and if the minimum
21 standard deduction of his spouse is greater than the
22 10-percent standard deduction of such spouse, elect
23 (under regulations prescribed by the Secretary or his
24 delegate) to have his tax determined with regard to
25 the minimum standard deduction in lieu of being de-

1 terminated with regard to the 10-percent standard de-
2 duction.”

3 (b) AMENDMENT OF SECTION 2.—The second sentence
4 of section 2 (a) (relating to tax in case of joint return or re-
5 turn of surviving spouse) is amended by striking out “and
6 section 3” and inserting in lieu thereof “, section 3, and sec-
7 tion 141”.

8 (c) AMENDMENTS OF SECTION 144.—

9 (1) The first sentence of section 144 (b) (relating
10 to change of election of standard deduction) is amended
11 to read as follows: “Under regulations prescribed by
12 the Secretary or his delegate, a change of election
13 with respect to the standard deduction for any taxable
14 year may be made after the filing of the return for such
15 year.”

16 (2) Section 144 is amended by adding at the end
17 thereof the following new subsection:

18 “(c) CHANGE OF ELECTION DEFINED.—For purposes
19 of this title, the term ‘change of election with respect to the
20 standard deduction’ means—

21 “(1) a change of an election to take (or not to
22 take) the standard deduction;

23 “(2) a change of an election to pay (or not to
24 pay) the tax under section 3; or

1 “(3) a change of an election under section
2 141 (d) (2).”

3 (d) CONFORMING AMENDMENTS.—

4 (1) Subparagraph (A) of section 6212 (c) (2)
5 (relating to cross references) is amended by striking out
6 “to take” and inserting in lieu thereof “with respect to
7 the”.

8 (2) Paragraph (3) of section 6504 (relating to
9 cross references) is amended by striking out “to take”
10 and inserting in lieu thereof “with respect to the”.

11 **SEC. 113. RELATED AMENDMENTS.**

12 (a) RETIREMENT INCOME CREDIT.—Section 37 (a)
13 (relating to credit against tax for retirement income) is
14 amended by striking out “an amount equal to the amount
15 received by such individual as retirement income (as defined
16 in subsection (c) and as limited by subsection (d)), multi-
17 plied by the rate provided in section 1 for the first \$2,000
18 of taxable income;” and inserting in lieu thereof “an amount
19 ~~(4) equal to 15 percent~~ *equal to 17 percent, in the case of*
20 *a taxable year beginning in 1964, or 15 percent, in the case*
21 *of a taxable year beginning after December 31, 1964, of the*
22 *amount received by such individual as retirement income*
23 *(as defined in subsection (c) and as limited by subsection*
24 *(d)) ;”.*

1 (b) TAX ON NONRESIDENT ALIEN INDIVIDUALS.—
 2 Section 871 (relating to tax on nonresident alien individuals)
 3 is amended—

4 (1) By striking out “is more than \$15,400, except
 5 that—” in subsection (b) and inserting in lieu thereof
 6 “is more than \$19,000 in the case of a taxable year
 7 beginning in 1964 or more than \$21,200 in the case of
 8 a taxable year beginning after 1964, except that—”.

9 (2) By striking out the heading to subsection (a)
 10 and inserting in lieu thereof the following:
 11 “(a) NO UNITED STATES BUSINESS—30 PERCENT
 12 TAX.—”.

13 (3) By striking out the heading to subsection (b)
 14 and inserting in lieu thereof the following:

15 “(b) NO UNITED STATES BUSINESS—REGULAR
 16 TAX.—”.

17 SEC. 114. CROSS REFERENCES TO TAX TABLES, ETC.

(1) For optional tax if adjusted gross income is less than \$5,000, see section 301 of this Act.

(2) For income tax collected at source, see section 302 of this Act.

18 PART II—CORPORATIONS

19 SEC. 121. REDUCTION OF TAX ON CORPORATIONS.

20 Section 11 (relating to tax on corporations) is amended
 21 to read as follows:

1 "SEC. 11. TAX IMPOSED.

2 " (a) CORPORATIONS IN GENERAL.—A tax is hereby
3 imposed for each taxable year on the taxable income of
4 every corporation. The tax shall consist of a normal tax
5 computed under subsection (b) and a surtax computed under
6 subsection (c).

7 " (b) NORMAL TAX.—The normal tax is equal to the
8 following percentage of the taxable income:

9 " (1) 30 percent, in the case of a taxable year
10 beginning before January 1, 1964, and

11 " (2) 22 percent, in the case of a taxable year
12 beginning after December 31, 1963.

13 " (c) SURTAX.—The surtax is equal to the following
14 percentage of the amount by which the taxable income
15 exceeds the surtax exemption for the taxable year:

16 " (1) 22 percent, in the case of a taxable year
17 beginning before January 1, 1964,

18 " (2) 28 percent, in the case of a taxable year
19 beginning after December 31, 1963, and before Jan-
20 uary 1, 1965, and

21 " (3) 26 percent, in the case of a taxable year
22 beginning after December 31, 1964.

23 " (d) SURTAX EXEMPTION.—For purposes of this sub-

1 title, the surtax exemption for any taxable year is \$25,000
 2 ~~(5) or the amount determined under section 1561 (relating to~~
 3 ~~surtax exemptions in case of certain controlled corporations)~~
 4 , *except that, with respect to a corporation to which section*
 5 *1561 (relating to surtax exemptions in case of certain con-*
 6 *trolled corporations) applies for the taxable year, the surtax*
 7 *exemption for the taxable year is the amount determined under*
 8 *such section.*

9 “(e) EXCEPTIONS.—Subsection (a) shall not apply to
 10 a corporation subject to a tax imposed by—

11 “(1) section 594 (relating to mutual savings banks
 12 conducting life insurance business),

13 “(2) subchapter L (sec. 801 and following, relat-
 14 ing to insurance companies),

15 “(3) subchapter M (sec. 851 and following, re-
 16 lating to regulated investment companies and real estate
 17 investment trusts), or

18 “(4) section 881 (a) (relating to foreign corpora-
 19 tions not engaged in business in United States).”

20 SEC. 122. CURRENT TAX PAYMENTS BY CORPORATIONS.

21 (a) INSTALLMENT PAYMENTS OF ESTIMATED INCOME
 22 TAX BY CORPORATIONS.—Section 6154 (relating to install-
 23 ment payments of estimated income tax by corporations)
 24 is amended to read as follows:

1 "SEC. 6154. INSTALLMENT PAYMENTS OF ESTIMATED IN-
 2 COME TAX BY CORPORATIONS.

3 "(a) AMOUNT AND TIME FOR PAYMENT OF EACH
 4 INSTALLMENT.—The amount of estimated tax (as defined
 5 in section 6016(b)) with respect to which a declaration is
 6 required under section 6016 shall be paid as follows:

7 "(1) PAYMENT IN 4 INSTALLMENTS.—If the
 8 declaration is filed on or before the 15th day of the
 9 4th month of the taxable year, the estimated tax shall
 10 be paid in 4 installments. The amount and time for
 11 payment of each installment shall be determined in
 12 accordance with the following table:

"If the taxable year begins in—	The following percentages of the estimated tax shall be paid on the 15th day of the—			
	4th month	6th month	9th month	12th month
1964-----	1	1	25	25
1965-----	4	4	25	25
1966-----	9	9	25	25
1967-----	14	14	25	25
1968-----	19	19	25	25
1969-----	22	22	25	25
1970 or any subsequent year-----	25	25	25	25

13 "(2) PAYMENT IN 3 INSTALLMENTS.—If the dec-
 14 laration is filed after the 15th day of the 4th month and
 15 not after the 15th day of the 6th month of the taxable
 16 year, and is not required by section 6074(a) to be
 17 filed on or before the 15th day of such 4th month, the

1 estimated tax shall be paid in 3 installments. The
2 amount and time for payment of each installment shall
3 be determined in accordance with the following table:

"If the taxable year begins in—	The following percentages of the estimated tax shall be paid on the 15th day of the—		
	6th month	9th month	12th month
1964-----	1½	25½	25½
1965-----	5½	26½	26½
1966-----	12	28	28
1967-----	18½	29½	29½
1968-----	25½	31½	31½
1969-----	29½	32½	32½
1970 or any subsequent year-----	33½	33½	33½

4 “(3) PAYMENT IN 2 INSTALLMENTS.—If the
5 declaration of estimated tax is filed after the 15th day
6 of the 6th month and not after the 15th day of the 9th
7 month of the taxable year, and is not required by section
8 6074 (a) to be filed on or before the 15th day of such
9 6th month, the estimated tax shall be paid in 2 install-
10 ments. The amount and time for payment of each

1 installment shall be determined in accordance with the
 2 following table:

"If the taxable year begins in—	The following percentages of the estimated tax shall be paid on the 15th day of the—	
	9th month	12th month
1964-----	26	26
1965-----	29	29
1966-----	34	34
1967-----	39	39
1968-----	44	44
1969-----	47	47
1970 or any subsequent year-----	50	50

3 “(4) PAYMENT IN 1 INSTALLMENT.—If the
 4 declaration of estimated tax is filed after the 15th day
 5 of the 9th month of the taxable year, and is not required
 6 by section 6074 (a) to be filed on or before the 15th
 7 day of such 9th month, the estimated tax shall be paid
 8 in 1 installment. The amount and time for payment of
 9 the installment shall be determined in accordance with
 10 the following table:

"If the taxable year begins in—	The following percentages of the estimated tax shall be paid on the 15th day of the 12th month
1964-----	52
1965-----	58
1966-----	68
1967-----	78
1968-----	88
1969-----	94
1970 or any subsequent year-----	100

1 “(5) LATE FILING.—If the declaration is filed after
2 the time prescribed in section 6074 (a) (determined
3 without regard to any extension of time for filing the
4 declaration under section 6081), paragraphs (2), (3),
5 and (4) of this subsection shall not apply, and there
6 shall be paid at the time of such filing all installments
7 of estimated tax which would have been payable on or
8 before such time if the declaration had been filed within
9 the time prescribed in section 6074 (a), and the remain-
10 ing installments shall be paid at the times at which,
11 and in the amounts in which, they would have been pay-
12 able if the declaration had been so filed.

13 “(b) AMENDMENT OF DECLARATION.—If any amend-
14 ment of a declaration is filed, the amount of each remaining
15 installment (if any) shall be the amount which would have
16 been payable if the new estimate had been made when the
17 first estimate for the taxable year was made, increased or de-
18 creased (as the case may be), by the amount computed by
19 dividing—

1 “(1) the difference between (A) the amount of
2 estimated tax required to be paid before the date on
3 which the amendment is made, and (B) the amount of
4 estimated tax which would have been required to be paid
5 before such date if the new estimate had been made
6 when the first estimate was made, by

7 “(2) the number of installments remaining to be
8 paid on or after the date on which the amendment is
9 made.

10 “(c) APPLICATION TO SHORT TAXABLE YEAR.—The
11 application of this section to taxable years of less than 12
12 months shall be in accordance with regulations prescribed by
13 the Secretary or his delegate.

14 “(d) INSTALLMENTS PAID IN ADVANCE.—At the elec-
15 tion of the corporation, any installment of the estimated tax
16 may be paid before the date prescribed for its payment.”

17 (b) TIME FOR FILING DECLARATIONS OF ESTIMATED
18 INCOME TAX BY CORPORATIONS.—Section 6074 (relating

1 to time for filing declarations of estimated income tax by cor-
2 porations) is amended to read as follows:

3 **“SEC. 6074. TIME FOR FILING DECLARATIONS OF ESTI-**
4 **MATED INCOME TAX BY CORPORATIONS.**

5 “(a) **GENERAL RULE.**—The declaration of estimated tax
6 required of corporations by section 6016 shall be filed as
7 follows:

<div>“If the requirements of section 6016 are first met—</div>	<div>The declaration shall be filed on or before—</div>
before the 1st day of the 4th month of the taxable year-----	the 15th day of the 4th month of the taxable year
after the last day of the 3d month and before the 1st day of the 6th month of the taxable year-----	the 15th day of the 6th month of the taxable year
after the last day of the 5th month and before the 1st day of the 9th month of the taxable year-----	the 15th day of the 9th month of the taxable year
after the last day of the 8th month and before the 1st day of the 12th month of the taxable year-----	the 15th day of the 12th month of the taxable year

8 “(b) **AMENDMENT.**—An amendment of a declaration
9 may be filed in any interval between installment dates
10 prescribed for the taxable year, but only one amendment
11 may be filed in each such interval.

12 “(c) **SHORT TAXABLE YEAR.**—The application of this
13 section to taxable years of less than 12 months shall be in
14 accordance with regulations prescribed by the Secretary or
15 his delegate.”

1 (c) FAILURE BY CORPORATIONS TO PAY ESTIMATED
2 INCOME TAX.—

3 (1) The last sentence of section 6655 (c) (2) (re-
4 lating to period of underpayment) is amended to read
5 as follows: “For purposes of this paragraph, a payment
6 of estimated tax on any installment date shall be con-
7 sidered a payment of any previous underpayment only to
8 the extent such payment exceeds the amount of the in-
9 stallment determined under subsection (b) (1) for such
10 installment date.”

11 (2) Paragraph (3) of section 6655 (d) (relating
12 to exception) is amended to read as follows:

13 “(3) (A) An amount equal to 70 percent of the
14 tax for the taxable year computed by placing on an
15 annualized basis the taxable income:

16 “(i) for the first 3 months of the taxable year,
17 in the case of the installment required to be paid in
18 the 4th month,

19 “(ii) for the first 3 months or for the first 5
20 months of the taxable year, in the case of the in-
21 stallment required to be paid in the 6th month,

22 “(iii) for the first 6 months or for the first 8
23 months of the taxable year in the case of the install-
24 ment required to be paid in the 9th month, and

1 “(iv) for the first 9 months or for the first 11
 2 months of the taxable year, in the case of the in-
 3 stallment required to be paid in the 12th month of
 4 the taxable year.

5 “(B) For purposes of this paragraph, the taxable
 6 income shall be placed on an annualized basis by—

7 “(i) multiplying by 12 the taxable income re-
 8 ferred to in subparagraph (A), and

9 “(ii) dividing the resulting amount by the num-
 10 ber of months in the taxable year (3, 5, 6, 8, 9, or
 11 11, as the case may be) referred to in subparagraph
 12 (A).”

13 (d) TECHNICAL AMENDMENT.—Section 6016(f) (re-
 14 lating to declarations of estimated income tax by corpora-
 15 tions) is amended to read as follows:

16 “(f) CROSS REFERENCE.—

“For provisions relating to the number of amendments
 which may be filed, see section 6074(b).”

17 **SEC. 123. RELATED AMENDMENTS.**

18 (a) TAX ON MUTUAL INSURANCE COMPANIES
 19 (OTHER THAN LIFE, ETC.)—

20 (1) Subsection (a) of section 821 (relating to
 21 imposition of tax) is amended to read as follows:

22 “(a) IMPOSITION OF TAX.—A tax is hereby imposed
 23 for each taxable year beginning after December 31, 1963.

1 on the mutual insurance company taxable income of every
 2 mutual insurance company (other than a life insurance com-
 3 pany and other than a fire, flood, or marine insurance com-
 4 pany subject to the tax imposed by section 831). Such
 5 tax shall consist of—

6 “(1) NORMAL TAX.—A normal tax of 22 percent
 7 of the mutual insurance company taxable income, or 44
 8 percent of the amount by which such taxable income
 9 exceeds \$6,000, whichever is the lesser; plus

10 “(2) SURTAX.—A surtax on the mutual insurance
 11 company taxable income computed as provided in sec-
 12 tion 11 (c) as though the mutual insurance company
 13 taxable income were the taxable income referred to in
 14 section 11 (c).”

15 (2) Paragraph (1) of section 821 (c) (relating to
 16 alternative tax for certain small companies) is amended
 17 to read as follows:

18 “(1) IMPOSITION OF TAX.—In the case of taxable
 19 years beginning after December 31, 1963, there is here-
 20 by imposed for each taxable year on the income of each
 21 mutual insurance company to which this subsection
 22 applies a tax (which shall be in lieu of the tax im-
 23 posed by subsection (a)) computed as follows:

24 “(A) NORMAL TAX.—A normal tax of 22 per-
 25 cent of the taxable investment income, or 44 per-

1 cent of the amount by which such taxable income
2 exceeds \$3,000, whichever is the lesser; plus

3 “(B) SURTAX.—A surtax on the taxable in-
4 vestment income computed as provided in section
5 11 (c) as though the taxable investment income
6 were the taxable income referred to in section
7 11 (c).”

8 (b) RECEIPT OF MINIMUM DISTRIBUTIONS BY DOMES-
9 TIC CORPORATIONS.—Subsection (b) of section 963 (relat-
10 ing to receipt of minimum distributions by domestic cor-
11 porations) is amended to read as follows:

12 “(b) MINIMUM DISTRIBUTION.—For purposes of this
13 section, a minimum distribution with respect to the earnings
14 and profits for the taxable year of any controlled foreign cor-
15 poration or corporations shall, in the case of any United
16 States shareholder, be its pro rata share of an amount deter-
17 mined in accordance with whichever of the following tables
18 applies to the taxable year:

19 “(1) TAXABLE YEARS BEGINNING IN 1963.—

“If the effective foreign tax rate is (percentage)—	The required minimum dis- tribution of earnings and profits is (percentage)—
Under 10_____	90
10 or over but less than 20_____	86
20 or over but less than 28_____	82
28 or over but less than 34_____	75
34 or over but less than 39_____	68
39 or over but less than 42_____	55
42 or over but less than 44_____	40
44 or over but less than 46_____	27
46 or over but less than 47_____	14
47 or over_____	0

1 “(2) TAXABLE YEARS BEGINNING IN 1964.—

“If the effective foreign tax rate is (percentage)—	The required minimum dis- tribution of earnings and profits is (percentage)—
Under 10-----	87
10 or over but less than 19-----	83
19 or over but less than 27-----	79
27 or over but less than 33-----	72
33 or over but less than 37-----	65
37 or over but less than 40-----	53
40 or over but less than 42-----	38
42 or over but less than 44-----	26
44 or over but less than 45-----	13
45 or over-----	0

2 “(3) TAXABLE YEARS BEGINNING AFTER DECEM-
3 BER 31, 1964.—

“If the effective foreign tax rate is (percentage)—	The required minimum dis- tribution of earnings and profits is (percentage)—
Under 9-----	83
9 or over but less than 18-----	79
18 or over but less than 26-----	76
26 or over but less than 32-----	69
32 or over but less than 36-----	63
36 or over but less than 39-----	51
39 or over but less than 41-----	37
41 or over but less than 42-----	25
42 or over but less than 43-----	13
43 or over-----	0”

4 (c) AMENDMENT OF SECTION 242.—Section 242 (a)
5 (relating to deduction for partially tax-exempt interest) is
6 amended by adding at the end thereof the following new
7 sentence: “No deduction shall be allowed under this section
8 for purposes of any surtax imposed by this subtitle.”

PART III—EFFECTIVE DATES

SEC. 131. GENERAL RULE.

Except for purposes of section 21 of the Internal Revenue Code of 1954 (relating to effect of changes in rates during a taxable year), the amendments made by parts I and II of this title shall apply with respect to taxable years beginning after December 31, 1963.

SEC. 132. FISCAL YEAR TAXPAYERS.

Effective with respect to taxable years ending after December 31, 1963, subsection (d) of section 21 (relating to effect of changes in rates during a taxable year) is amended to read as follows:

“(d) CHANGES MADE BY REVENUE ACT OF ~~(6)1963~~
1964.—

“(1) INDIVIDUALS.—In applying subsection (a) to the taxable year of an individual beginning in 1963 and ending in 1964—

“(A) the rate of tax for the period on and after January 1, 1964, shall be applied to the taxable income determined as if part IV of subchapter B (relating to standard deduction for individuals), as amended by the Revenue Act of ~~(7)1963~~ 1964, applied to taxable years ending after December 31, 1963, and

1 “(B) section 4 (relating to rules for optional
2 tax), as amended by such Act, shall be applied to
3 taxable years ending after December 31, 1963.

4 In applying subsection (a) to a taxable year of an
5 individual beginning in 1963 and ending in 1964, or
6 beginning in 1964 and ending in 1965, the change in
7 the tax imposed under section 3 shall be treated as a
8 change in a rate of tax.

9 “(2) CORPORATIONS.—In applying subsection (a)
10 to a taxable year of a corporation beginning in 1963
11 and ending in 1964, if—

12 “(A) the surtax exemption of such corpora-
13 tion for such taxable year is less than \$25,000 by
14 reason of the application of section 1561 (relating
15 to surtax exemptions in case of certain controlled
16 corporations), or

17 “(B) an additional tax is imposed on the tax-
18 able income of such corporation for such taxable
19 year by section 1562 (b) (relating to additional tax
20 in case of component members of controlled groups
21 which elect multiple surtax exemptions),
22 the change in the surtax exemption, or the imposition
23 of such additional tax, shall be treated as a change in a
24 rate of tax taking effect on January 1, 1964.”

Title II—Structural Changes

SEC. 201. DIVIDENDS RECEIVED BY INDIVIDUALS.

(a) REDUCTION OF 4 PERCENT CREDIT TO 2 PERCENT CREDIT FOR CALENDAR YEAR 1964.—

(1) GENERAL RULE.—Section 34 (a) (relating to general rule for credit for dividends received) is amended by striking out “an amount equal to 4 percent of the dividends which are received after July 31, 1954, from domestic corporations and are included in gross income” and inserting in lieu thereof:

“an amount equal to the following percentage of the dividends which are received from domestic corporations and are included in gross income:

“(1) 4 percent of the amount of such dividends which are received before January 1, 1964, and

“(2) 2 percent of the amount of such dividends which are received during the calendar year 1964.”

(2) LIMITATIONS.—Section 34 (b) (2) (relating to limitations on amount of credit) is amended—

(A) by inserting “, or beginning after December 31, 1963” after “1955” at the end of subparagraph (A), and

(B) by inserting “, and beginning before January 1, 1964” after “1954” at the end of subparagraph (B).

1 (b) REPEAL OF CREDIT FOR DIVIDENDS RECEIVED BY
 2 INDIVIDUALS.—Effective with respect to dividends received
 3 after December 31, 1964, section 34 (relating to dividends
 4 received by individuals) is hereby repealed.

5 (c) DOUBLING OF AMOUNT OF PARTIAL EXCLUSION
 6 FROM GROSS INCOME OF DIVIDENDS RECEIVED BY INDIVID-
 7 UALS.—Section 116 (a) (relating to partial exclusion from
 8 gross income of dividends received by individuals) is
 9 amended by striking out “\$50” each place it appears and
 10 inserting in lieu thereof “\$100”.

11 (d) CONFORMING AMENDMENTS.—

12 (1) The table of sections for subpart A of part IV
 13 of subchapter A of chapter 1 is amended by striking
 14 out

“Sec. 34. Dividends received by individuals.”

15 (2) Section 35 (b) (1) is amended by striking out
 16 “the sum of the credits allowable under sections 33 and
 17 34” and inserting in lieu thereof “the credit allowable
 18 under section 33”.

19 (3) Section 37 (a) is amended by striking out
 20 “section 34 (relating to credit for dividends received
 21 by individuals),”.

22 (4) Section 46 (a) (3) is amended by striking out
 23 subparagraph (B), and by redesignating subparagraphs
 24 (C) and (D) as “(B)” and “(C)”, respectively.

1 (5) Section 584 (c) (2) is amended by striking
2 out “section 34 or”.

3 (6) (A) Section 642 (a) is amended by striking
4 out paragraph (3) ;

5 (B) Section 642 (i) is amended to read as follows:

6 “(i) CROSS REFERENCES.—

 “(1) For disallowance of standard deduction in case of
 estates and trusts, see section 142(b)(4).

 “(2) For special rule for determining the time of re-
 ceipt of dividends by a beneficiary under section 652 or
 662, see section 116(c)(3).”

7 (C) Section 116 (c) is amended by adding at the
8 end thereof the following new paragraph:

9 “(3) The amount of dividends properly allocable
10 to a beneficiary under section 652 or 662 shall be deemed
11 to have been received by the beneficiary ratably on the
12 same date that the dividends were received by the
13 estate or trust.”

14 (7) Section 702 (a) (5) is amended by striking out
15 “a credit under section 34,” and the comma after “sec-
16 tion 116”.

17 (8) Section 854 (a) is amended by striking out
18 “section 34 (a) (relating to credit for dividends re-
19 ceived by individuals),” and the comma after “section
20 116 (relating to an exclusion for dividends received by
21 individuals) ”.

22 (9) Section 854 (b) (1) is amended by striking out

1 “the credit under section 34 (a),” and the comma after
2 “section 116”.

3 (10) Section 854 (b) (2) is amended by striking
4 out “the credit under section 34,” and the comma after
5 “section 116”.

6 (11) Section 857 (c) is amended by striking out
7 “section 34 (a) (relating to credit for dividends received
8 by individuals),” and the comma after “section 116
9 (relating to an exclusion for dividends received by
10 individuals)”.

11 (12) Section 871 (b) is amended by striking out
12 “the sum of the credits under sections 34 and 35” and
13 inserting in lieu thereof “the credit under section 35”.

14 (13) Section 1375 (b) is amended by striking out
15 “section 34,” and the comma after “section 37”.

16 (14) Section 6014 (a) is amended by striking out
17 “34 or”.

18 (e) EFFECTIVE DATES.—The amendments made by
19 subsection (a) shall apply with respect to taxable years end-
20 ing after December 31, 1963. The amendment made by sub-
21 section (b) shall apply with respect to taxable years ending
22 after December 31, 1964. The amendment made by sub-
23 section (c) shall apply with respect to taxable years begin-
24 ning after December 31, 1963. The amendments made
25 by subsection (d) shall apply with respect to dividends

1 received after December 31, 1964, in taxable years ending
2 after such date.

3 **(8) SEC. 202. LIMITATION ON RETIREMENT INCOME.**

4 *(a) INCREASE IN LIMITATION IN CASE OF CERTAIN*
5 *MARRIED COUPLES.*—Section 37 (relating to retirement in-
6 come) is amended by redesignating subsection (i) as sub-
7 section (j) and inserting after subsection (h) the following
8 new subsection:

9 “(i) *EXCEPTIONS TO LIMITATION ON AMOUNT OF RE-*
10 *TIREMENT INCOME IN CASE OF CERTAIN JOINT RE-*
11 *TURNS.*—In the case of a joint return of a husband and wife
12 both of whom have attained the age of 65 before the close
13 of the taxable year—

14 “(1) *BOTH SPOUSES HAVE RECEIVED EARNED*
15 *INCOME.*—If both spouses are individuals who have re-
16 ceived earned income before the beginning of the tax-
17 able year (within the meaning of subsection (b)) and if
18 the sum of the retirement income and the amounts de-
19 scribed in paragraphs (1) and (2) of subsection (d)
20 received by either spouse during the taxable year is less
21 than \$762, the \$1,524 amount referred to in subsection
22 (d) shall, with respect to the other spouse, be increased
23 by an amount equal to the amount by which such sum is
24 less than \$762.

25 “(2) *ONE SPOUSE HAS NOT RECEIVED EARNED*
26 *INCOME.*—If either spouse is an individual who has not

received earned income before the beginning of the taxable year (within the meaning of subsection (b)), the \$1,524 amount referred to in subsection (d) shall, with respect to the other spouse, be increased by \$762, minus the sum of the amounts described in paragraphs (1) and (2) of subsection (d) received by his spouse."

(b) *EFFECTIVE DATE.*—The amendment made by subsection (a) shall apply to taxable years beginning after December 31, 1963.

SEC. (9) ~~202~~ 203. REPEAL OF REQUIREMENT THAT BASIS OF SECTION 38 PROPERTY BE REDUCED BY 7 PERCENT; OTHER PROVISIONS RELATING TO INVESTMENT CREDIT.

(a) **REPEAL OF REQUIREMENT THAT BASIS BE REDUCED.**—

(1) **IN GENERAL.**—Subsection (g) of section 48 (requiring that the basis of section 38 property be reduced by 7 percent of the qualified investment) is hereby repealed.

(2) **INCREASE IN BASIS OF PROPERTY PLACED IN SERVICE BEFORE (10) ~~JULY 1, 1963~~ JANUARY 1, 1964.**—

(A) The basis of any section 38 property (as defined in section 48(a) of the Internal Revenue Code of 1954) placed in service before (11) ~~July 1, 1963~~ January 1, 1964, shall be increased, under

1 regulations prescribed by the Secretary of the
 2 Treasury or his delegate, by an amount equal to
 3 7 percent of the qualified investment with respect
 4 to such property under section 46 (c) of the In-
 5 ternal Revenue Code of 1954. If there has been
 6 any increase with respect to such property under
 7 section 48 (g) (2) of such Code, the increase under
 8 the preceding sentence shall be appropriately re-
 9 duced therefor.

10 (B) If a lessor made the election provided by
 11 section 48 (d) of the Internal Revenue Code of 1954
 12 with respect to property placed in service before
 13 ~~(12) July 1, 1963~~ *January 1, 1964—*

14 (i) subparagraph (A) shall not apply
 15 with respect to such property, but

16 (ii) under regulations prescribed by the
 17 Secretary of the Treasury or his delegate, the
 18 deductions otherwise allowable under section
 19 162 of such Code to the lessee for amounts
 20 paid to the lessor under the lease (or, if such
 21 lessee has purchased such property, the basis
 22 of such property) shall be adjusted in a manner
 23 consistent with subparagraph (A).

24 (C) The adjustments under this paragraph
 25 shall be made as of the first day of the taxpayer's

1 first taxable year which begins after ~~(13) June 30,~~
 2 ~~1963~~ *December 31, 1963.*

3 (3) CONFORMING AMENDMENTS.—

4 (A) The last sentence of section 48 (d) (re-
 5 lating to certain leased property) is hereby repealed.

6 (B) Section 181 (relating to deduction for cer-
 7 tain unused investment credit) is hereby repealed.

8 (C) Section 1016 (a) (19) (relating to adjust-
 9 ments to basis) is amended to read as follows:

10 “(19) to the extent provided in section 48 (g) and
 11 in section ~~(14)202~~ *203* (a) (2) of the Revenue Act of
 12 ~~(15)1963~~ *1964*, in the case of property which is or has
 13 been section 38 property (as defined in section 48 (a)) ;”

14 (D) The table of sections for part VI of sub-
 15 chapter B of chapter 1 is amended by striking out
 16 the following:

“Sec. 181. Deduction for certain unused investment credit.”

17 (4) EFFECTIVE DATE.—Paragraphs (1) and (3)
 18 of this subsection shall apply—

19 (A) in the case of property placed in service
 20 after ~~(16) June 30, 1963~~ *December 31, 1963*, with
 21 respect to taxable years ending after such date, and

22 (B) in the case of property placed in service
 23 before ~~(17) July 1, 1963~~ *January 1, 1964*, with

1 respect to taxable years beginning after ~~(18) June~~
 2 ~~30, 1963~~ *December 31, 1963.*

3 (b) BASIS OF CERTAIN LEASED PROPERTY TO
 4 LESSEE.—Paragraphs (1) and (2) of section 48 (d) (relat-
 5 ing to certain leased property) are amended to read as
 6 follows:

7 “(1) except as provided in paragraph (2), the
 8 fair market value of such property, or

9 “(2) if such property is leased by a corporation
 10 which is a member of an affiliated group (within the
 11 meaning of section 46 (a) (5)) to another corporation
 12 which is a member of the same affiliated group, the
 13 basis of such property to the lessor.”

14 (c) TREATMENT OF ELEVATORS AND ESCALATORS
 15 FOR PURPOSES OF THE INVESTMENT CREDIT.—Section 48

16 (a) (1) (relating to section 38 property) is amended—

17 (1) by striking out the period at the end of sub-
 18 paragraph (B) and inserting in lieu thereof “, or”; and

19 (2) by adding after subparagraph (B) the follow-
 20 ing new subparagraph:

21 “(C) elevators and escalators, but only if—

22 “(i) the construction, reconstruction, or
 23 erection of the elevator or escalator is completed
 24 by the taxpayer after June 30, 1963, or

25 “(ii) the elevator or escalator is acquired

1 after June 30, 1963, and the original use of
2 such elevator or escalator commences with the
3 taxpayer and commences after such date.”

4 (d) TREATMENT OF ELEVATORS AND ESCALATORS
5 FOR PURPOSES OF SECTION 1245.—Section 1245 (a) (re-
6 lating to gain from dispositions of certain depreciable prop-
7 erty) is amended—

8 (1) by striking out so much of paragraph (2) as
9 precedes the second sentence thereof and inserting in
10 lieu thereof the following:

11 “(2) RECOMPUTED BASIS.—For purposes of this
12 section, the term ‘recomputed basis’ means—

13 “(A) with respect to any property referred
14 to in paragraph (3) (A) or (B), its adjusted
15 basis recomputed by adding thereto all adjustments,
16 attributable to periods after December 31, 1961, or

17 “(B) with respect to any property referred to
18 in paragraph (3) (C), its adjusted basis recomputed
19 by adding thereto all adjustments, attributable to
20 periods after June 30, 1963,

21 reflected in such adjusted basis on account of deductions
22 (whether in respect of the same or other property)
23 allowed or allowable to the taxpayer or to any other
24 person for depreciation, or for amortization under section
25 168.”;

1 (2) by striking out the period at the end of para-
2 graph (3) (B) and inserting in lieu thereof “, or”;
3 and

4 (3) by adding at the end of paragraph (3) the
5 following new subparagraph:

6 “(C) an elevator or an escalator.”

7 (e) TREATMENT OF INVESTMENT CREDIT BY FED-
8 ERAL REGULATORY AGENCIES.—It was the intent of the
9 Congress in providing an investment credit under section 38
10 of the Internal Revenue Code of 1954, and it is the intent
11 of the Congress in repealing the reduction in basis required
12 by section 48 (g) of such Code, to provide an incentive for
13 modernization and growth of private industry (including that
14 portion thereof which is regulated). Accordingly, Congress
15 does not intend that any agency or instrumentality of the
16 United States having jurisdiction with respect to a taxpayer
17 shall, without the consent of the taxpayer, use—

18 (1) in the case of public utility property (as de-
19 fined in section 46 (c) (3) (B) of the Internal Revenue
20 Code of 1954), more than a proportionate part (deter-

1 mined with reference to the average useful life of the
2 property with respect to which the credit was allowed)
3 of the credit against tax allowed for any taxable year by
4 section 38 of such Code, or

5 (2) in the case of any other property, any credit
6 against tax allowed by section 38 of such Code,

7 to reduce such taxpayer's Federal income taxes for the pur-
8 pose of establishing the cost of service of the taxpayer or to
9 accomplish a similar result by any other method.

10 (f) EFFECTIVE DATES.—

11 (1) The amendments made by subsection (b) shall
12 apply with respect to property possession of which is
13 transferred to a lessee on or after the date of enactment
14 of this Act.

15 (2) The amendments made by subsection (c) shall
16 apply with respect to taxable years ending after June
17 30, 1963.

18 (3) The amendments made by subsection (d) shall
19 apply with respect to dispositions after December 31,
20 1963, in taxable years ending after such date.

1 SEC. (19)~~203~~ 204. GROUP-TERM LIFE INSURANCE PUR-
 2 CHASED FOR EMPLOYEES.

3 (a) INCLUSION IN INCOME.—

4 (1) Part II of subchapter B of chapter 1 (relating
 5 to items specifically included in gross income) is
 6 amended by adding at the end thereof the following new
 7 section:

8 “SEC. 79. GROUP-TERM LIFE INSURANCE PURCHASED
 9 FOR EMPLOYEES.

10 “(a) GENERAL RULE.—There shall be included in the
 11 gross income of an employee for the taxable year an amount
 12 equal to the cost of group-term life insurance on his life
 13 provided for part or all of such year under a policy (or
 14 policies) carried directly or indirectly by his employer (or
 15 employers) ; but only to the extent that such cost exceeds
 16 the sum of—

17 ~~(20)“(1) the cost of so much of such insurance as~~
 18 ~~does not exceed \$30,000 of protection, and~~

19 “(1) the cost of \$70,000 of such insurance, and

20 “(2) the amount (if any) paid by the employee
 21 toward the purchase of such insurance.

22 “(b) EXCEPTIONS.—Subsection (a) shall not apply
 23 to—

24 “(1) the cost of group-term life insurance on the
 25 life of an individual which is provided under a policy

1 carried directly or indirectly by an employer after such
 2 individual has terminated his employment with such
 3 employer and either has reached the retirement age with
 4 respect to such employer or is disabled (within the
 5 meaning of paragraph (3) of section 213 (g), deter-
 6 mined without regard to paragraph (4) thereof),

7 “(2) the cost of any portion of the group-term life
 8 insurance on the life of an employee provided during
 9 part or all of the taxable year of the employee under
 10 which—

11 “(A) the employer is directly or indirectly
 12 the beneficiary, or

13 “(B) a person described in section 170 (c) is
 14 the sole beneficiary,

15 for the entire period during such taxable year for
 16 which the employee receives such insurance, and

17 “(3) the cost of any group-term life insurance
 18 which is provided under a contract to which section
 19 72 (m) (3) applies.

20 ~~(21)“(e) DETERMINATION OF COST OF INSURANCE.—~~

21 ~~“(1) UNIFORM PREMIUM TABLE METHOD.—~~For
 22 purposes of this section and chapter 24, the cost of
 23 group-term life insurance on the life of an employee
 24 provided during any period shall be determined on the
 25 basis of uniform premiums ~~(computed on the basis of~~

1 5-year age brackets) prescribed by regulations by the
2 Secretary or his delegate.

3 “(2) POLICY COST METHOD.—If the employer so
4 elects (at such time and in such manner as the Secretary
5 or his delegate prescribes) with respect to any employee
6 for any period, the cost of group-term life insurance on
7 the life of such employee shall (in lieu of being deter-
8 mined under paragraph (1)) be determined on the basis
9 of the average premium cost under the policy for the
10 ages included within the age bracket which would be
11 applicable to such employee under paragraph (1). The
12 preceding sentence shall not apply for purposes of deter-
13 mining the cost of insurance provided under a policy if
14 the premium on such policy is not computed on the
15 basis of the cost of such insurance at the ages (or at the
16 age brackets applicable under paragraph (1)) of the
17 individuals comprising the group.

18 “(3) EMPLOYED INDIVIDUALS OVER AGE 64.—
19 In the case of an employee who has attained age 64, the
20 cost determined under paragraph (1) or (2), as the
21 case may be, shall not exceed the cost which would be
22 determined under such paragraph with respect to such
23 individual if he were age 63.”

1 “(c) *DETERMINATION OF COST OF INSURANCE.*—For
 2 purposes of this section and section 6052, the cost of group-
 3 term insurance on the life of an employee provided during any
 4 period shall be determined on the basis of uniform premiums
 5 (computed on the basis of 5-year age brackets) prescribed by
 6 regulations by the Secretary or his delegate. In the case of
 7 an employee who has attained age 64, the cost prescribed
 8 shall not exceed the cost with respect to such individual if he
 9 were age 63.”

10 (2) The table of sections for part II of subchapter
 11 B of chapter 1 is amended by adding at the end thereof
 12 the following:

“Sec. 79. Group-term life insurance purchased for em-
 ployees.”

13 (3) Section 7701 (a) (20) (defining employee)
 14 is amended by striking out “For the purpose of apply-
 15 ing the provisions of sections 104” and inserting in lieu
 16 thereof “For the purpose of applying the provisions of
 17 (22)sections 79 and 218 section 79 with respect to
 18 group-term life insurance purchased for employees, for
 19 the purpose of applying the provisions of section 104”.

20 (23)(b) ~~CERTAIN CONTRIBUTIONS BY EMPLOYEES~~
 21 ~~FOR GROUP TERM LIFE INSURANCE.~~—Part VII of sub-
 22 chapter B of chapter 1 (relating to additional itemized de-

1 ductions for individuals) is amended by inserting after section
2 217 the following new section:

3 **"SEC. 218. CERTAIN CONTRIBUTIONS BY EMPLOYEES FOR**
4 **GROUP-TERM LIFE INSURANCE.**

5 "In the case of an employee on whose life group-term
6 life insurance in excess of \$30,000 is provided for part or
7 all of the taxable year under a policy (or policies) carried
8 directly or indirectly by his employer (or employers), there
9 shall be allowed as a deduction for such taxable year an
10 amount equal to the excess (if any) of—

11 “(1) the amount paid by the employee toward
12 the purchase of such insurance in excess of \$30,000,
13 over

14 “(2) the cost (determined in the manner provided
15 by paragraph (1) of section 79(c), without regard to
16 paragraph (3) thereof) of such insurance in excess of
17 \$30,000.

18 For purposes of this section, there shall not be taken into
19 account any insurance the cost of which is excepted from
20 the application of subsection (a) of section 79 by subsection
21 (b) thereof.”

22 **(24)(e) (b) WITHHOLDING.**—Section 3401 (a) (relat-
23 ing to definition of wages) is amended by striking out the
24 period at the end of paragraph (13) and inserting in lieu

1 thereof “; or”, and by adding at the end thereof the follow-
 2 ing new paragraph:

3 “(14) in the form of group-term life insurance on
 4 the life of an employee(25), ~~but only to the extent the~~
 5 ~~cost of such insurance is not includible in the employee’s~~
 6 ~~gross income under section 79(a).~~ For purposes of
 7 this paragraph, the extent to which the cost of group-
 8 term life insurance is includible in the employee’s gross
 9 income under section 79(a) shall be determined as if
 10 the employer were the only employer paying such
 11 employee remuneration in the form of such insurance;
 12 or”.

13 **(26)(c) INFORMATION REPORTING.—**

14 (1) *REQUIREMENT.*—Subpart C of part III of
 15 subchapter A of chapter 61 (relating to information and
 16 returns) is amended by adding at the end thereof the
 17 following new section:

18 **“SEC. 6052. RETURNS REGARDING PAYMENT OF WAGES**
 19 **IN THE FORM OF GROUP-TERM LIFE IN-**
 20 **SURANCE.**

21 **“(a) REQUIREMENT OF REPORTING.**—Every em-
 22 ployer who during any calendar year provides group-term
 23 life insurance on the life of an employee during part or all
 24 of such calendar year under a policy (or policies) carried

1 *directly or indirectly by such employer shall make a return*
 2 *according to the forms or regulations prescribed by the Sec-*
 3 *retary or his delegate, setting forth the cost of such insur-*
 4 *ance and the name and address of the employee on whose*
 5 *life such insurance is provided, but only to the extent that*
 6 *the cost of such insurance is includible in the employee's gross*
 7 *income under section 79(a). For purposes of this section,*
 8 *the extent to which the cost of group-term life insurance is*
 9 *includible in the employee's gross income under section 79*
 10 *(a) shall be determined as if the employer were the only*
 11 *employer paying such employee remuneration in the form of*
 12 *such insurance.*

13 “(b) *STATEMENTS TO BE FURNISHED TO EMPLOYEES*
 14 *WITH RESPECT TO WHOM INFORMATION IS FURNISHED.—*
 15 *Every employer making a return under subsection (a) shall*
 16 *furnish to each employee whose name is set forth in such*
 17 *return a written statement showing the cost of the group-*
 18 *term life insurance shown on such return. The written*
 19 *statement required under the preceding sentence shall be fur-*
 20 *nished to the employee on or before January 31 of the year*
 21 *following the calendar year for which the return under sub-*
 22 *section (a) was made.”*

23 (2) *PENALTIES FOR FAILURE TO FURNISH STATE-*
 24 *MENTS TO PERSONS WITH RESPECT TO WHOM RETURNS*

1 *ARE FILED.*—Section 6678 (relating to failure to fur-
 2 nish certain statements) is amended—

3 (A) by striking out “or 6049(c)” and insert-
 4 ing in lieu thereof “6049(c), or 6052(b)” ; and

5 (B) by striking out “or 6049(a)(1),” and
 6 inserting in lieu thereof “6049(a)(1), or 6052
 7 (a),”.

8 (3) *CLERICAL AMENDMENT.*—The table of sections
 9 for subpart C of part III of subchapter A of chapter 61
 10 is amended by adding at the end thereof the following:

“Sec. 6052. Returns regarding payment of wages in the form
 of group-term life insurance.”

11 (4) *CROSS REFERENCE.*—

*For penalty for failure to file information returns re-
 quired by section 6052(a) of the Internal Revenue Code
 of 1954 (added by paragraph (1) of this subsection), see
 section 6652(a)(3) of such Code (as amended by section
 222(b)(2) of this Act).*

12 (d) *EFFECTIVE DATES.*—The amendments made by
 13 subsections (a) and ~~(27)(b)~~ (c), and paragraph (3) of sec-
 14 tion 6652(a) of the Internal Revenue Code of 1954 (as
 15 amended by section 222(b)(2) of this Act), shall apply with
 16 respect to group-term life insurance provided after Decem-
 17 ber 31, 1963, in taxable years ending after such date. The
 18 amendments made by subsection ~~(28)(e)~~ (b) shall apply
 19 with respect to remuneration paid after December 31, 1963,
 20 in the form of group-term life insurance provided after such

1 date. (29) *In applying section 79(b) of the Internal Reve-*
 2 *nue Code of 1954 (as added by subsection (a)(1) of this*
 3 *section) to a taxable year beginning before May 1, 1964, if*
 4 *paragraph (2)(B) of such section applies with respect to an*
 5 *employee for the period beginning May 1, 1964, and ending*
 6 *with the close of his first taxable year ending after April 30,*
 7 *1964, such paragraph (2)(B) shall be treated as applying*
 8 *with respect to such employee for the period beginning Janu-*
 9 *ary 1, 1964, and ending April 30, 1964.*

10 **(30) SEC. 204. INCLUSION IN GROSS INCOME OF REIM-**
 11 **BURSED MEDICAL EXPENSES TO THE**
 12 **EXTENT THAT THE REIMBURSEMENT**
 13 **EXCEEDS THE EXPENSES.**

14 ~~(a) GENERAL RULE.~~—Part II of subchapter B of chap-
 15 ~~ter 1 (relating to items specifically included in gross income)~~
 16 ~~is amended by adding at the end thereof the following new~~
 17 ~~section:~~

18 **“SEC. 80. REIMBURSEMENT OF MEDICAL EXPENSES IN**
 19 **EXCESS OF SUCH EXPENSES.**

20 **“Notwithstanding any other provision of this subchapter,**
 21 **amounts received through accident or health insurance for**
 22 **medical expenses shall be included in gross income to the**
 23 **extent the aggregate of such amounts received for any per-**
 24 **sonal injury or sickness exceeds the aggregate amount of the**
 25 **medical expenses incurred by the taxpayer for such**

1 personal injury or sickness. For purposes of this section,
 2 the term 'medical expenses' means expenses for medical care
 3 as defined in section 213(e), except that it does not include
 4 amounts paid for accident or health insurance."

5 (b) CLERICAL AMENDMENT.—The table of sections for
 6 such part II is amended by adding at the end thereof the
 7 following:

"Sec. 80. Reimbursement of medical expenses in excess of
 such expenses."

8 (c) TECHNICAL AMENDMENT.—Subsection (e) of sec-
 9 tion 105 (relating to the definition of accident and health
 10 plans) is amended by striking out "this section" and insert-
 11 ing in lieu thereof "this section, section 80,".

12 (d) EFFECTIVE DATE.—The amendments made by this
 13 section shall apply to taxable years beginning after Decem-
 14 ber 31, 1963.

15 SEC. 205. AMOUNTS RECEIVED UNDER WAGE CONTINUA- 16 TION PLANS.

17 (a) WAGE CONTINUATION PLANS.—The second sen-
 18 tence of section 105(d) (relating to wage continuation
 19 plans) is amended to read as follows: "The preceding sen-
 20 tence shall not apply to amounts attributable to the first 30
 21 calendar days in such ~~(31)period.~~ *period if such amounts*
 22 *exceed 75 percent of the regular weekly rate of wages of the*

1 *employee; provided that if such amounts are less than 75*
 2 *percent of the regular weekly rate of wages of the employee,*
 3 *the preceding sentence shall not apply to amounts attributable*
 4 *to the first seven calendar days in such period unless the*
 5 *employee is hospitalized on account of sickness for at least*
 6 *one day during such period.”*

7 (b) **EFFECTIVE DATE.**—The amendment made by sub-
 8 section (a) shall apply to amounts attributable to periods of
 9 absence commencing after December 31, 1963.

10 **SEC. 206. EXCLUSION FROM GROSS INCOME OF GAIN ON**
 11 **SALE OR EXCHANGE OF RESIDENCE OF INDIV-**
 12 **IDUAL WHO HAS ATTAINED AGE 65.**

13 (a) **IN GENERAL.**—Part III of subchapter B of chapter
 14 1 (relating to items specifically excluded from gross income)
 15 is amended by redesignating section 121 as section 122 and
 16 by inserting before such section the following new section:
 17 **“SEC. 121. GAIN FROM SALE OR EXCHANGE OF RESIDENCE**
 18 **OF INDIVIDUAL WHO HAS ATTAINED AGE 65.**

19 **“(a) GENERAL RULE.** At the election of the taxpayer,
 20 gross income does not include gain from the sale or exchange
 21 of property if—

22 **“(1)** the taxpayer has attained the age of 65 before
 23 the date of such sale or exchange, and

24 **“(2)** during the 8-year period ending on the date
 25 of the sale or exchange, such property has been owned

1 and used by the taxpayer as his principal residence for
2 periods aggregating 5 years or more.

3 “(b) LIMITATIONS.—

4 “(1) WHERE ADJUSTED SALES PRICE EXCEEDS
5 \$20,000.—If the adjusted sales price of the property
6 sold or exchanged exceeds \$20,000, subsection (a)
7 shall apply to that portion of the gain which bears the
8 same ratio to the total amount of such gain as \$20,000
9 bears to such adjusted sales price. For purposes of the
10 preceding sentence, the term ‘adjusted sales price’ has
11 the meaning assigned to such term by section 1034
12 (b) (1) (determined without regard to subsection
13 (d) (7) of this section).

14 “(2) APPLICATION TO ONLY ONE SALE OR EX-
15 CHANGE.—Subsection (a) shall not apply to any sale
16 or exchange by the taxpayer if an election by the
17 taxpayer or his spouse under subsection (a) with
18 respect to any other sale or exchange is in effect.

19 “(c) ELECTION.—An election under subsection (a)
20 may be made or revoked at any time before the expiration
21 of the period for making a claim for credit or refund of the
22 tax imposed by this chapter for the taxable year in which
23 the sale or exchange occurred, and shall be made or revoked
24 in such manner as the Secretary or his delegate shall by
25 regulations prescribe. In the case of a taxpayer who is

1 married, an election under subsection (a) or a revocation
2 thereof may be made only if his spouse joins in such election
3 or revocation.

4 “(d) SPECIAL RULES.—

5 “(1) PROPERTY HELD JOINTLY BY HUSBAND AND
6 WIFE.—For purposes of this section, if—

7 “(A) property is held by a husband and wife
8 as joint tenants, tenants by the entirety, or com-
9 munity property,

10 “(B) such husband and wife make a joint re-
11 turn under section 6013 for the taxable year of the
12 sale or exchange, and

13 “(C) one spouse satisfies the age, holding, and
14 use requirements of subsection (a) with respect to
15 such property,

16 then both husband and wife shall be treated as satisfying
17 the age, holding, and use requirements of subsection (a)
18 with respect to such property.

19 “(2) PROPERTY OF DECEASED SPOUSE.—For pur-
20 poses of this section, in the case of an unmarried in-
21 dividual whose spouse is deceased on the date of the sale
22 or exchange of property, if—

23 “(A) the deceased spouse (during the 8-year
24 period ending on the date of the sale or exchange)

1 satisfied the holding and use requirements of sub-
2 section (a) (2) with respect to such property, and

3 “(B) no election by the deceased spouse under
4 subsection (a) is in effect with respect to a prior
5 sale or exchange,

6 then such individual shall be treated as satisfying the
7 holding and use requirements of subsection (a) (2) with
8 respect to such property.

9 “(3) TENANT-STOCKHOLDER IN COOPERATIVE
10 HOUSING CORPORATION.—For purposes of this section,
11 if the taxpayer holds stock as a tenant-stockholder (as
12 defined in section 216) in a cooperative housing corpora-
13 tion (as defined in such section), then—

14 “(A) the holding requirements of subsection
15 (a) (2) shall be applied to the holding of such
16 stock, and

17 “(B) the use requirements of subsection (a)
18 (2) shall be applied to the house or apartment
19 which the taxpayer was entitled to occupy as such
20 stockholder.

21 “(4) INVOLUNTARY CONVERSIONS.—For purposes
22 of this section, the destruction, theft, seizure, requisition,
23 or condemnation of property shall be treated as the sale
24 of such property.

1 “(5) PROPERTY USED IN PART AS PRINCIPAL RESI-
2 DENCE.—In the case of property only a portion of which,
3 during the 8-year period ending on the date of the sale
4 or exchange, has been owned and used by the taxpayer
5 as his principal residence for periods aggregating 5 years
6 or more, this section shall apply with respect to so much
7 of the gain from the sale or exchange of such property
8 as is determined, under regulations prescribed by the
9 Secretary or his delegate, to be attributable to the por-
10 tion of the property so owned and used by the taxpayer.

11 “(6) DETERMINATION OF MARITAL STATUS.—In
12 the case of any sale or exchange, for purposes of this
13 section—

14 “(A) the determination of whether an indi-
15 vidual is married shall be made as of the date of
16 the sale or exchange; and

17 “(B) an individual legally separated from his
18 spouse under a decree of divorce or of separate
19 maintenance shall not be considered as married.

20 “(7) APPLICATION OF SECTIONS 1033 AND
21 1034.—In applying sections 1033 (relating to involun-
22 tary conversions) and 1034 (relating to sale or exchange
23 of residence), the amount realized from the sale or ex-
24 change of property shall be treated as being the amount
25 determined without regard to this section, reduced by the

1 amount of gain not included in gross income pursuant
2 to an election under this section.”

3 (b) TECHNICAL AND CLERICAL AMENDMENTS.—

4 (1) Section 6012 (c) (relating to persons required
5 to make returns of income) is amended to read as
6 follows:

7 “(c) CERTAIN INCOME EARNED ABROAD OR FROM
8 SALE OF RESIDENCE.—For purposes of this section, gross
9 income shall be computed without regard to the exclusion
10 provided for in section 121 (relating to sale of residence by
11 individual who has attained age 65) and without regard to
12 the exclusion provided for in section 911 (relating to earned
13 income from sources without the United States).”

14 (2) The table of sections for part III of subchapter
15 B of chapter 1 is amended by striking out

“Sec. 121. Cross references to other Acts.”

16 and inserting in lieu thereof

“Sec. 121. Gain from sale or exchange of residence of indi-
vidual who has attained age 65.

“Sec. 122. Cross references to other Acts.”

17 (3) Section 1033 (h) (relating to involuntary con-
18 versions) is amended by adding at the end thereof the
19 following new paragraph:

“(3) For exclusion from gross income of certain gain
from involuntary conversion of residence of taxpayer
who has attained age 65, see section 121.”

1 (4) Section 1034 (relating to sale or exchange of
2 residence) is amended by adding at the end thereof the
3 following new subsection:

4 “(k) CROSS REFERENCE.—

 “**For exclusion from gross income of certain gain
from sale or exchange of residence of taxpayer who has
attained age 65, see section 121.**”

5 (c) EFFECTIVE DATE.—The amendments made by this
6 section shall apply to dispositions after December 31, 1963,
7 in taxable years ending after such date.

8 **SEC. 207. DENIAL OF DEDUCTION FOR CERTAIN STATE,
9 LOCAL, AND FOREIGN TAXES.**

10 (a) IN GENERAL.—Subsections (a), (b), and (c) of
11 section 164 (relating to deduction for taxes) are amended to
12 read as follows:

13 “(a) GENERAL RULE.—Except as otherwise provided
14 in this section, the following taxes shall be allowed as a de-
15 duction for the taxable year within which paid or accrued:

16 “(1) State and local, and foreign, real property
17 taxes.

18 “(2) State and local personal property taxes.

19 “(3) State and local, and foreign, income, war
20 profits, and excess profits taxes.

21 “(4) State and local general sales taxes.

22 (32)“(5) *State and local taxes on the sale of gasoline,*
23 *diesel fuel, and other motor fuels.*

“(6) *State and local taxes on the registration or licensing of highway motor vehicles and on licenses for the operation of highway motor vehicles.*

In addition, there shall be allowed as a deduction State and local, and foreign, taxes not described in the preceding sentence which are paid or accrued within the taxable year in carrying on a trade or business or an activity described in section 212 (relating to expenses for production of income).

“(b) DEFINITIONS AND SPECIAL RULES.—For purposes of this section—

“(1) PERSONAL PROPERTY TAXES.—The term ‘personal property tax’ means an ad valorem tax which is imposed on an annual basis in respect of personal property.

“(2) GENERAL SALES TAXES.—

“(A) IN GENERAL.—The term ‘general sales tax’ means a tax imposed at one rate in respect of the sale at retail of a broad range of classes of items.

“(B) SPECIAL RULES FOR FOOD, ETC.—In the case of items of food, clothing, medical supplies, and motor vehicles—

“(i) the fact that the tax does not apply in respect of some or all of such items shall not be taken into account in determining whether

1 the tax applies in respect of a broad range of
2 classes of items, and

3 “(ii) the fact that the rate of tax ap-
4 plicable in respect of some or all of such items
5 is lower than the general rate of tax shall not
6 be taken into account in determining whether
7 the tax is imposed at one rate.

8 “(C) ITEMS TAXED AT DIFFERENT RATES.—
9 Except in the case of a lower rate of tax applicable
10 in respect of an item described in subparagraph (B),
11 no deduction shall be allowed under this section for
12 any general sales tax imposed in respect of an item
13 at a rate other than the general rate of tax.

14 “(D) COMPENSATING USE TAXES.—A com-
15 pensating use tax in respect of an item shall be
16 treated as a general sales tax. For purposes of the
17 preceding sentence, the term ‘compensating use tax’
18 means, in respect of any item, a tax which—

19 “(i) is imposed on the use, storage, or
20 consumption of such item, and

21 “(ii) is complementary to a general sales
22 tax, but only if a deduction is allowable under
23 subsection (a) (4) in respect of items sold at
24 retail in the taxing jurisdiction which are similar
25 to such item.

(33)“(E) ~~SEPARATELY STATED GENERAL SALES TAXES.~~—If the amount of any general sales tax is separately stated, then, to the extent that the amount so stated is paid by the consumer (otherwise than in connection with the consumer’s trade or business) to his seller, such amount shall be treated as a tax imposed on, and paid by, such consumer.

“(3) STATE OR LOCAL TAXES.—A State or local tax includes only a tax imposed by a State, a possession of the United States, or a political subdivision of any of the foregoing, or by the District of Columbia.

“(4) FOREIGN TAXES.—A foreign tax includes only a tax imposed by the authority of a foreign country.

(34)“(5) *SEPARATELY STATED GENERAL SALES TAXES AND GASOLINE TAXES.*—*If the amount of any general sales tax or of any tax on the sale of gasoline, diesel fuel, or other motor fuel is separately stated, then, to the extent that the amount so stated is paid by the consumer (otherwise than in connection with the consumer’s trade or business) to his seller, such amount shall be treated as a tax imposed on, and paid by, such consumer.*

“(c) DEDUCTION DENIED IN CASE OF CERTAIN

1 TAXES.—No deduction shall be allowed for the following
2 taxes:

3 “(1) Taxes assessed against local benefits of a kind
4 tending to increase the value of the property assessed;
5 but this paragraph shall not prevent the deduction of so
6 much of such taxes as is properly allocable to mainte-
7 nance or interest charges.

8 “(2) Taxes on real property, to the extent that
9 subsection (d) requires such taxes to be treated as
10 imposed on another taxpayer.”

11 (b) TECHNICAL AMENDMENTS.—

12 (1) The first sentence of section 164 (f) (relating
13 to payments for municipal services in atomic energy
14 communities) is amended by inserting “State” before
15 “real property taxes”.

16 (2) Section 164 (g) (relating to cross references)
17 is amended to read as follows:

18 “(g) CROSS REFERENCES.—

“ (1) For provisions disallowing any deduction for the
payment of the tax imposed by subchapter B of chapter 3
(relating to tax-free covenant bonds), see section 1451.

“ (2) For provisions disallowing any deduction for cer-
tain taxes, see section 275.”

19 (3) (A) Part IX of subchapter B of chapter 1
20 (relating to items not deductible) is amended by adding
21 at the end thereof the following new section:

1 “SEC. 275. CERTAIN TAXES.

2 “(a) GENERAL RULE.—No deduction shall be allowed
3 for the following taxes:

4 “(1) Federal income taxes, including—

5 “(A) the tax imposed by section 3101 (re-
6 lating to the tax on employees under the Federal
7 Insurance Contributions Act) ;

8 “(B) the taxes imposed by sections 3201 and
9 3211 (relating to the taxes on railroad employees
10 and railroad employee representatives) ; and

11 “(C) the tax withheld at source on wages
12 under section 3402, and corresponding provisions of
13 prior revenue laws.

14 “(2) Federal war profits and excess profits taxes.

15 “(3) Estate, inheritance, legacy, succession, and
16 gift taxes.

17 “(4) Income, war profits, and excess profits taxes
18 imposed by the authority of any foreign country or pos-
19 session of the United States, if the taxpayer chooses to
20 take to any extent the benefits of section 901 (relating
21 to the foreign tax credit).

22 “(5) Taxes on real property, to the extent that sec-
23 tion 164 (d) requires such taxes to be treated as imposed
24 on another taxpayer.

1 “(b) CROSS REFERENCE.—

 “For disallowance of certain other taxes, see section 164(c).”

2 (B) The table of sections for such part IX is
3 amended by adding at the end thereof the following:

 “Sec. 275. Certain taxes.”

4 (4) Paragraph (1) of section 535 (b) (relating to
5 adjustments to accumulated taxable income) is amended
6 by striking out “section 164 (b) (6)” and inserting in
7 lieu thereof “section 275 (a) (4)”.

8 (5) The first sentence of paragraph (1) of section
9 545 (b) (relating to adjustments to personal holding
10 company taxable income) is amended by striking out
11 “section 164 (b) (6)” and inserting in lieu thereof
12 “section 275 (a) (4)”.

13 (6) The first sentence of paragraph (1) of section
14 556 (b) (relating to adjustments to foreign personal
15 holding company taxable income) is amended by strik-
16 ing out “section 164 (b) (6)” and inserting in lieu
17 thereof “section 275 (a) (4)”.

18 (7) Paragraph (1) of section 901 (d) (relating
19 to credit for taxes imposed by foreign countries) is
20 amended by striking out “section 164” and inserting
21 in lieu thereof “sections 164 and 275”.

22 (8) Section 903 (relating to credit for taxes

1 imposed by a foreign country in lieu of income, etc.,
 2 taxes) is amended by striking out "section 164 (b)"
 3 and inserting in lieu thereof "sections 164 (a) and 275
 4 (a)".

5 ~~(35)(e) EFFECTIVE DATE.~~—The amendments made by this
 6 section shall apply to taxable years beginning after Decem-
 7 ber 31, 1963.

8 (c) *EFFECTIVE DATE.*—

9 (1) *GENERAL RULE.*—Except as provided in para-
 10 graph (2), the amendments made by this section shall
 11 apply to taxable years beginning after December 31,
 12 1963.

13 (2) *SPECIAL TAXING DISTRICTS.*—Section 164
 14 (c)(1) of the Internal Revenue Code of 1954 (as
 15 amended by subsection (a)) shall not prevent the deduc-
 16 tion under section 164 of such Code (as so amended)
 17 of taxes levied by a special taxing district which is de-
 18 scribed in section 164(b)(5) of such Code (as in effect
 19 for a taxable year ending on December 31, 1963) and
 20 which was in existence on December 31, 1963, for the
 21 purpose of retiring indebtedness existing on such date.

22 SEC. 208. PERSONAL CASUALTY AND THEFT LOSSES.

23 (a) *LIMITATION ON AMOUNT OF CASUALTY OR*
 24 *THEFT LOSS DEDUCTION.*—Section 165 (c) (3) (relating

1 to losses of property not connected with trade or business)
 2 is amended to read as follows:

3 “(3) losses of property not connected with a trade
 4 or business, if such losses arise from fire, storm, ship-
 5 wreck, or other casualty, or from theft. A loss de-
 6 scribed in this paragraph shall be allowed only to the
 7 extent that the amount of loss to such individual arising
 8 from each casualty, or from each theft, exceeds \$100.
 9 For purposes of the \$100 limitation of the preceding
 10 sentence, a husband and wife making a joint return
 11 under section 6013 for the taxable year in which the
 12 loss is allowed as a deduction shall be treated as one
 13 individual. No loss described in this paragraph shall
 14 be allowed if, at the time of filing the return, such
 15 loss has been claimed for estate tax purposes in the
 16 estate tax return.”

17 (b) EFFECTIVE DATE.—The amendment made by sub-
 18 section (a) shall apply to losses sustained after December
 19 31, 1963, in taxable years ending after such date.

20 **SEC. 209. CHARITABLE, ETC., CONTRIBUTIONS AND GIFTS.**

21 (a) CERTAIN ORGANIZATIONS ADDED TO ADDITIONAL
 22 10-PERCENT CHARITABLE LIMITATION.—Section 170 (b)
 23 (1) (A) (relating to limitation on amount of deduction for
 24 charitable contributions by individuals) is amended by strik-

69-108 3792

1 ing out “or” at the end of clause (iii), and by inserting after
 2 clause (iv) the following new clauses:

3 “(v) a governmental unit referred to in
 4 subsection (c) (1), or

5 “(vi) an organization referred to in sub-
 6 section (c) (2) which normally receives a sub-
 7 stantial part of its support (exclusive of income
 8 received in the exercise or performance by such
 9 organization of its charitable, educational, or
 10 other purpose or function constituting the basis
 11 for its exemption under section 501 (a)) from a
 12 governmental unit referred to in subsection (c)
 13 (1) or from direct or indirect contributions from
 14 the general public,”.

15 **(36)(b) LIMITATION OF UNLIMITED CHARITABLE CON-**
 16 **TRIBUTION DEDUCTION.**—Section 170(b)(1) (relating to
 17 limitations on amount of deduction for charitable contributions
 18 by individuals) is amended by redesignating subparagraph
 19 (D) as subparagraph (E) and by inserting after subpara-
 20 graph (C) the following new subparagraph:

21 “(D) APPLICATION OF SUBPARAGRAPH (C)
 22 FOR TAXABLE YEARS BEGINNING AFTER DECEM-

1 *BER 31, 1963.—If the taxable year begins after De-*
2 *cember 31, 1963—*

3 “(i) subparagraph (C) shall apply only
4 if the taxpayer so elects (at such time and in such
5 manner as the Secretary or his delegate by
6 regulations prescribes), and

7 “(ii) for purposes of subparagraph (C),
8 the amount of the charitable contributions
9 for the taxable year (and for all prior tax-
10 able years beginning after December 31,
11 1963) shall be determined without the applica-
12 tion of paragraph (5) and solely by reference
13 to charitable contributions described in sub-
14 paragraph (A).

15 *If the taxpayer elects to have subparagraph (C)*
16 *apply for the taxable year, then for such taxable*
17 *year subsection (a) shall apply only with respect*
18 *to charitable contributions described in subpara-*
19 *graph (A), and no amount of charitable contribu-*
20 *tions made in the taxable year or any prior taxable*
21 *year may be treated under paragraph (5) as hav-*
22 *ing been made in the taxable year or in any suc-*
23 *ceeding taxable year.”*

1 **(37)(c) 5-YEAR CARRYOVER OF CERTAIN CHARITABLE**
 2 **CONTRIBUTIONS MADE BY INDIVIDUALS.—**

3 (1) *IN GENERAL.*—Section 170(b) (relating to
 4 limitations on amount of deduction for charitable con-
 5 tributions) is amended by adding at the end thereof the
 6 following new paragraph:

7 “(5) *CARRYOVER OF CERTAIN EXCESS CONTRI-*
 8 *BUTIONS BY INDIVIDUALS.—*

9 “(A) In the case of an individual, if the amount
 10 of charitable contributions described in paragraph
 11 (1)(A) payment of which is made within a taxable
 12 year (hereinafter in this paragraph referred to as
 13 the ‘contribution year’) beginning after December
 14 31, 1963, exceeds 30 percent of the taxpayer’s
 15 adjusted gross income for such year (computed
 16 without regard to any net operating loss carryback to
 17 such year under section 172), such excess shall be
 18 treated as a charitable contribution described in para-
 19 graph (1)(A) paid in each of the 5 succeeding tax-
 20 able years in order of time, but, with respect to any
 21 such succeeding taxable year, only to the extent of
 22 the lesser of the two following amounts:

23 “(i) the amount by which 30 percent of

1 *the taxpayer's adjusted gross income for such*
2 *succeeding taxable year (computed without re-*
3 *gard to any net operating loss carryback to*
4 *such succeeding taxable year under section 172)*
5 *exceeds the sum of the charitable contributions*
6 *described in paragraph (1)(A) payment of*
7 *which is made by the taxpayer within such suc-*
8 *ceeding taxable year (determined without regard*
9 *to this subparagraph) and the charitable contri-*
10 *butions described in paragraph (1)(A) pay-*
11 *ment of which was made in taxable years (be-*
12 *ginning after December 31, 1963) before the*
13 *contribution year which are treated under this*
14 *subparagraph as having been paid in such suc-*
15 *ceeding taxable year; or*

16 *“(ii) in the case of the first succeeding tax-*
17 *able year, the amount of such excess, and in the*
18 *case of the second, third, fourth, or fifth succeed-*
19 *ing taxable year, the portion of such excess not*
20 *treated under this subparagraph as a charitable*
21 *contribution described in paragraph (1)(A)*
22 *paid in any taxable year intervening between the*
23 *contribution year and such succeeding taxable*
24 *year.*

25 *“(B) In applying subparagraph (A), the*

1 *excess determined under subparagraph (A) for the*
 2 *contribution year shall be reduced to the extent that*
 3 *such excess reduces taxable income (as computed for*
 4 *purposes of the second sentence of section 172(b)*
 5 *(2)) and increases the net operating loss deduction*
 6 *for a taxable year succeeding the contribution year.”*

7 (2) *TECHNICAL AMENDMENTS.—Sections 545*
 8 *(b)(2) (relating to deductions for charitable contribu-*
 9 *tions by personal holding companies) and 556(b)(2)*
 10 *(relating to deductions for charitable contributions by*
 11 *foreign personal holding companies) are each amended*
 12 *by striking out “section 170(b)(2)” and inserting in*
 13 *lieu thereof “section 170(b) (2) and (5)”.*

14 ~~(38)~~(b) (d) 5-YEAR CARRYOVER OF CERTAIN CHARITABLE
 15 CONTRIBUTIONS MADE BY CORPORATIONS.—

16 (1) *IN GENERAL.—Section 170(b) (2) (relating*
 17 *to limitation on amount of deduction for charitable con-*
 18 *tributions by corporations) is amended by striking out*
 19 *the sentence following subparagraph (D) and inserting*
 20 *in lieu thereof the following:*

21 “Any contribution made by a corporation in a taxable
 22 year (hereinafter in this sentence referred to as the
 23 ‘contribution year’) in excess of the amount deductible
 24 for such year under the preceding sentence shall be
 25 deductible for each of the 5 succeeding taxable years

1 in order of time, but only to the extent of the lesser of
 2 the two following amounts: (i) the excess of the maxi-
 3 mum amount deductible for such succeeding taxable year
 4 under the preceding sentence over the sum of the con-
 5 tributions made in such year plus the aggregate of the
 6 excess contributions which were made in taxable years
 7 before the contribution year and which are deductible un-
 8 der this sentence for such succeeding taxable year; or
 9 (ii) in the case of the first succeeding taxable year, the
 10 amount of such excess contribution, and in the case of
 11 the second, third, fourth, or fifth succeeding taxable
 12 ~~(39) years,~~ *year*, the portion of such excess contribution
 13 not deductible under this sentence for any taxable year
 14 intervenng between the contribution year and such
 15 succeeding taxable year."

16 (2) CARRYOVERS IN CERTAIN CORPORATE ACQUI-
 17 SITIONS.—Paragraph (19) of section 381 (c) (relating
 18 to items of distributor or transferor corporation) is
 19 amended to read as follows:

20 "(19) CHARITABLE CONTRIBUTIONS IN EXCESS
 21 OF PRIOR YEARS' LIMITATIONS.—Contributions made
 22 in the taxable year ending on the date of distribution or
 23 transfer and the 4 prior taxable years by the distributor
 24 or transferor corporation in excess of the amount de-
 25 ductible under section 170 (b) (2) for such taxable

years shall be deductible by the acquiring corporation for its taxable years which begin after the date of distribution or transfer, subject to the limitations imposed in section 170 (b) (2). In applying the preceding sentence, each taxable year of the distributor or transferor corporation beginning on or before the date of distribution or transfer shall be treated as a prior taxable year with reference to the acquiring corporation's taxable years beginning after such date."

~~(40)(e)~~ (e) FUTURE INTERESTS IN TANGIBLE PERSONAL PROPERTY.—Section 170 (relating to charitable, etc., contributions and gifts) is amended by redesignating subsections (f) and (g) as subsections (g) and (h), respectively, and by inserting after subsection (e) the following new subsection:

"(f) FUTURE INTERESTS IN TANGIBLE PERSONAL PROPERTY.—For purposes of this section, payment of a charitable contribution which consists of a future interest in tangible personal property shall be treated as made only when all intervening interests in, and rights to the actual possession or enjoyment of, the property have expired or are held by persons other than the taxpayer or those standing in a relationship to the taxpayer described in section 267 (b). For purposes of the preceding sentence, a fixture which is intended to be severed from the real property shall

1 be treated as tangible personal ~~(41)~~property. This subsec-
 2 tion shall not apply to any charitable contribution where—

3 “~~(1)~~ the sole intervening interest or right is a non-
 4 transferable life interest reserved by the donor; or

5 “~~(2)~~ in the case of a joint gift by husband and
 6 wife, the sole intervening interest or right is a non-
 7 transferable life interest reserved by the donors which
 8 expires not later than the death of whichever of such
 9 donors dies later.

10 For purposes of the preceding sentence, a right to make an
 11 earlier transfer of the reserved life interest to the donee of
 12 the future interest shall not be treated as making a life inter-
 13 est transferable.” *property.*”

14 ~~(42)(d)~~ **EFFECTIVE DATES.**—The amendments made by
 15 subsections ~~(a)~~ and ~~(b)~~ shall apply with respect to con-
 16 tributions which are paid ~~(or treated as paid under section~~
 17 ~~170(a)(2)~~ of the Internal Revenue Code of 1954) in tax-
 18 able years beginning after December 31, 1963. The amend-
 19 ments made by subsection ~~(c)~~ shall apply to transfers of
 20 future interests made after December 31, 1963, in taxable
 21 years ending after such date.

22 (f) **EFFECTIVE DATES.**—

23 (1) The amendments made by subsections (a),
 24 (b), and (c), shall apply with respect to contribu-

1 *tions which are paid in taxable years beginning after*
2 *December 31, 1963.*

3 (2) The amendments made by subsection (d) shall
4 apply to taxable years beginning after December 31,
5 1963, with respect to contributions which are paid
6 (or treated as paid under section 170(a)(2) of
7 the Internal Revenue Code of 1954) in taxable years
8 beginning after December 31, 1961.

9 (3) The amendments made by subsection (e) shall
10 apply to transfers of future interests made after Decem-
11 ber 31, 1963, in taxable years ending after such date.

12 (43)SEC. 210. LOSSES ARISING FROM EXPROPRIATION OF
13 PROPERTY BY GOVERNMENTS OF FOR-
14 EIGN COUNTRIES.

15 (a) *NET OPERATING LOSS CARRYOVER.*—Section
16 172 (relating to net operating loss deduction) is amended—

17 (1) by striking out “Except as provided in clause
18 (ii)” in subsection (b)(1)(A)(i) and inserting in lieu
19 thereof “Except as provided in clause (ii) and in sub-
20 paragraph (D)”;

21 (2) by striking out “Except as provided in sub-
22 paragraph (C)” in subsection (b)(1)(B) and insert-
23 ing in lieu thereof “Except as provided in subparagraphs
24 (C) and (D)”;

1 (3) by adding at the end of subsection (b)(1) the
2 following new subparagraph:

3 “(D) In the case of a taxpayer which has a
4 foreign expropriation loss (as defined in subsection
5 (k)) for any taxable year ending after December
6 31, 1958, the portion of the net operating loss for
7 such year attributable to such foreign expropriation
8 loss shall not be a net operating loss carryback to
9 any taxable year preceding the taxable year of such
10 loss and shall be a net operating loss carryover to
11 each of the 10 taxable years following the taxable
12 year of such loss.”;

13 (4) by adding at the end of subsection (b)(3) the
14 following new subparagraphs:

15 “(C) Paragraph (1)(D) shall apply only if—
16 “(i) the foreign expropriation loss (as de-
17 fined in subsection (k)) for the taxable year
18 equals or exceeds 50 percent of the net operating
19 loss for the taxable year,

20 “(ii) in the case of a foreign expropriation
21 loss for a taxable year ending after December
22 31, 1963, the taxpayer elects (at such time and
23 in such manner as the Secretary or his delegate
24 by regulations prescribes) to have paragraph
25 (1)(D) apply, and

1 “(iii) in the case of a foreign expropriation
 2 loss for a taxable year ending after December
 3 31, 1958, and before January 1, 1964, the tax-
 4 payer elects (in such manner as may be pre-
 5 scribed by the Secretary or his delegate) on or
 6 before December 31, 1965, to have paragraph
 7 (1)(D) apply.

8 “(D) If a taxpayer makes an election under
 9 subparagraph (C)(iii), then (notwithstanding any
 10 law or rule of law), with respect to any taxable
 11 year ending before January 1, 1964, affected by the
 12 election—

13 “(i) the time for making or changing any
 14 choice or election under subpart A of part III of
 15 subchapter N (relating to foreign tax credit)
 16 shall not expire before January 1, 1966,

17 “(ii) any deficiency attributable to the elec-
 18 tion under subparagraph (C)(iii) or to the ap-
 19 plication of clause (i) of this subparagraph may
 20 be assessed at any time before January 1, 1969,
 21 and

22 “(iii) refund or credit of any overpayment
 23 attributable to the election under subparagraph
 24 (C)(iii) or to the application of clause (i) of
 25 this subparagraph may be made or allowed if

1 claim therefor is filed before January 1,
2 1969.”;

3 (5) by redesignating subsection (k) as (l), and by
4 inserting after subsection (j) the following new sub-
5 section:

6 “(k) *FOREIGN EXPROPRIATION LOSS DEFINED.*—

7 *For purposes of subsection (b)—*

8 “(1) The term ‘foreign expropriation loss’ means,
9 for any taxable year, the sum of the losses sustained by
10 reason of the expropriation, intervention, seizure, or
11 similar taking of property by the government of any
12 foreign country, any political subdivision thereof, or any
13 agency or instrumentality of the foregoing. For pur-
14 poses of the preceding sentence, a debt which becomes
15 worthless shall, to the extent of any deduction allowed
16 under section 166(a), be treated as a loss.

17 “(2) The portion of the net operating loss for any
18 taxable year attributable to a foreign expropriation loss
19 is the amount of the foreign expropriation loss for such
20 year (but not in excess of the net operating loss for such
21 year).”

22 (b) *TECHNICAL AMENDMENTS.*—Section 172(b)(2)
23 is amended—

(1) by striking out subparagraph (B) and inserting in lieu thereof the following:

“(B) by determining the amount of the net operating loss deduction—

“(i) without regard to the net operating loss for the loss year or for any taxable year thereafter, and

“(ii) without regard to that portion, if any, of a net operating loss for a taxable year attributable to a foreign expropriation loss, if such portion may not, under paragraph (1) (D), be carried back to such prior taxable year,”; and

(2) by adding at the end thereof the following new sentence: “For purposes of this paragraph, if a portion of the net operating loss for the loss year is attributable to a foreign expropriation loss to which paragraph (1) (D) applies, such portion shall be considered to be a separate net operating loss for such year to be applied after the other portion of such net operating loss.”

(c) *EFFECTIVE DATE.*—The amendments made by this section shall apply in respect of foreign expropriation losses (as defined in section 172(k) of the Internal Revenue Code

1 of 1954, as amended by subsection (a)(5) of this section),
 2 sustained in taxable years ending after December 31, 1958.

3 **SEC. (44)~~210~~ 211. ONE-PERCENT LIMITATION ON MEDI-**
 4 **CINE AND DRUGS.**

5 (a) **GENERAL RULE.**—Subsection (b) of section 213
 6 (relating to medical, dental, etc., expenses) is amended by
 7 adding at the end thereof the following new sentence: “The
 8 preceding sentence shall not apply to amounts paid for the
 9 care of—

10 “(1) the taxpayer and his spouse, if either of them
 11 has attained the age of 65 before the close of the taxa-
 12 ble year, or

13 “(2) any dependent described in subsection (a)
 14 (1) (A).”

15 (b) **EFFECTIVE DATE.**—The amendment made by sub-
 16 section (a) shall apply to taxable years beginning after
 17 December 31, 1963.

18 **SEC. (45)~~211~~ 212. CARE OF DEPENDENTS.**

19 (a) **CHILD CARE ALLOWANCE.**—Section 214 (relating
 20 to expenses for care of certain dependents) is amended to
 21 read as follows:

22 **“SEC. 214. EXPENSES FOR CARE OF CERTAIN DEPENDENTS.**

23 “(a) **GENERAL RULE.**—There shall be allowed as a
 24 deduction expenses paid during the taxable year by a tax-
 25 payer who is a woman or widower, or is a husband whose

1 wife is incapacitated or is institutionalized, for the care of one
 2 or more dependents (as defined in subsection (d) (1)), but
 3 only if such care is for the purpose of enabling the taxpayer
 4 to be gainfully employed.

5 “(b) LIMITATIONS.—

6 “(1) DOLLAR LIMIT.—

7 “(A) Except as provided in subparagraph
 8 (B), the deduction under subsection (a) shall not
 9 exceed \$600 for any taxable year.

10 ~~(46)“(B) The \$600 limit of subparagraph (A)~~
 11 ~~shall be increased (to an amount not above \$900)~~
 12 ~~by the amount of expenses incurred by the taxpayer~~
 13 ~~for any period during which—~~

14 ~~“(i) the taxpayer had 2 or more depend-~~
 15 ~~ents, and~~

16 ~~“(ii) paragraph (2) does not apply.~~

17 “(B) The \$600 limit of subparagraph (A)—

18 “(i) shall be increased (to an amount not
 19 above \$900) by the amount of expenses incurred
 20 by the taxpayer for any period during which
 21 the taxpayer had 2 dependents, and

22 “(ii) shall be increased (to an amount not
 23 above \$1,000) by the amount of expenses in-
 24 curred by the taxpayer for any period during
 25 which the taxpayer had 3 or more dependents.

1 ~~(47)~~~~“(2) WORKING WIVES.~~—In the case of a woman
2 who is married, the deduction under subsection (a)—

3 ~~“(A)~~ shall not be allowed unless she files a
4 joint return with her husband for the taxable year,
5 and

6 ~~“(B)~~ shall be reduced by the amount (if any)
7 by which the adjusted gross income of the taxpayer
8 and her spouse exceeds \$4,500.

9 This paragraph shall not apply to expenses incurred
10 while the taxpayer's husband is incapable of self-support
11 because mentally or physically defective.

12 ~~“(3) HUSBANDS WITH INCAPACITATED WIVES.~~—

13 In the case of a husband whose wife is incapacitated,
14 the deduction under subsection (a)—

15 ~~“(A)~~ shall not be allowed unless he files a
16 joint return with his wife for the taxable year, and

17 ~~“(B)~~ shall be reduced by the amount (if any)
18 by which the adjusted gross income of the taxpayer
19 and his spouse exceeds \$4,500.

20 This paragraph shall not apply to expenses incurred
21 while the taxpayer's wife is institutionalized if such in-
22 stitutionalization is for a period of at least 90 consecutive
23 days (whether or not within one taxable year) or a
24 shorter period if terminated by her death.

25 ~~“(2) WORKING WIVES AND HUSBANDS WITH IN-~~

1 *CAPACITATED WIVES.*—*In the case of a woman who is*
 2 *married and in the case of a husband whose wife is*
 3 *incapacitated, the deduction under subsection (a)—*

4 “(A) shall not be allowed unless the taxpayer
 5 and his spouse file a joint return for the taxable
 6 year, and

7 “(B) shall be reduced by the amount (if any)
 8 by which the adjusted gross income of the taxpayer
 9 and his spouse exceeds \$7,000.

10 *This paragraph shall not apply, in the case of a woman*
 11 *who is married, to expenses incurred while her husband*
 12 *is incapable of self-support because mentally or physi-*
 13 *cally defective, or, in the case of a husband whose wife*
 14 *is incapacitated, to expenses incurred while his wife*
 15 *is institutionalized if such institutionalization is for a*
 16 *period of at least 90 consecutive days (whether or not*
 17 *within one taxable year) or a shorter period if termi-*
 18 *nated by her death.*

19 **(48)** “~~(4)~~ (3) CERTAIN PAYMENTS NOT TAKEN INTO
 20 ACCOUNT.—Subsection (a) shall not apply to any
 21 amount paid to an individual with respect to whom the
 22 taxpayer is allowed for his taxable year a deduction un-
 23 der section 151 (relating to deductions for personal
 24 exemptions).

1 “(c) SPECIAL RULE WHERE WIFE IS INCAPACI-
 2 TATED OR INSTITUTIONALIZED.—In the case of a husband
 3 whose wife is incapacitated or is institutionalized, the deduc-
 4 tion under subsection (a) shall be allowed only for expenses
 5 incurred while the wife was incapacitated or institutionalized
 6 (as the case may be) for a period of at least 90 consecutive
 7 days (whether or not within one taxable year) or a shorter
 8 period if terminated by her death.

9 “(d) DEFINITIONS.—For purposes of this section—

10 “(1) DEPENDENT.—The term ‘dependent’ means a
 11 person with respect to whom the taxpayer is entitled to
 12 an exemption under section 151 (e) (1) —

13 “(A) who has not attained the age of 13 years
 14 and who (within the meaning of section 152) is a
 15 son, stepson, daughter, or stepdaughter of the tax-
 16 payer; or

17 “(B) who is physically or mentally incapable
 18 of caring for himself.

19 “(2) WIDOWER.—The term ‘widower’ includes an
 20 unmarried individual who is legally separated from his
 21 spouse under a decree of divorce or of separate mainte-
 22 nance.

23 “(3) INCAPACITATED WIFE.—A wife shall be con-
 24 sidered incapacitated only (A) while she is incapable of

1 caring for herself because mentally or physically defec-
2 tive, or (B) while she is institutionalized.

3 “(4) INSTITUTIONALIZED WIFE.—A wife shall be
4 considered institutionalized only while she is, for the
5 purpose of receiving medical care or treatment, an
6 inpatient, resident, or inmate of a public or private hos-
7 pital, sanitarium, or other similar institution.

8 “(5) DETERMINATION OF STATUS.—A woman
9 shall not be considered as married if—

10 “(A) she is legally separated from her spouse
11 under a decree of divorce or of separate maintenance
12 at the close of the taxable year, or

13 “(B) she has been deserted by her spouse, does
14 not know his whereabouts (and has not known his
15 whereabouts at any time during the taxable year),
16 and has applied to a court of competent jurisdiction
17 for appropriate process to compel him to pay support
18 or otherwise to comply with the law or a judicial
19 order, as determined under regulations prescribed by
20 the Secretary or his delegate.”

21 (b) EFFECTIVE DATE.—The amendment made by sub-
22 section (a) shall apply to taxable years beginning after
23 December 31, 1963.

1 **SEC. (49)~~212~~ 213. MOVING EXPENSES.**

2 (a) **DEDUCTION ALLOWED FOR MOVING EXPENSES.—**

3 (1) Part VII of subchapter B of chapter 1 (relat-
4 ing to additional itemized deductions for individuals) is
5 amended by redesignating section 217 as section 219 and
6 by inserting after section 216 the following new section:

7 **“SEC. 217. MOVING EXPENSES.**

8 “(a) **DEDUCTION ALLOWED.**—There shall be allowed
9 as a deduction moving expenses paid or incurred during the
10 taxable year in connection with the commencement of work
11 by the taxpayer as an employee at a new principal place of
12 work.

13 “(b) **DEFINITION OF MOVING EXPENSES.—**

14 “(1) **IN GENERAL.**—For purposes of this section,
15 the term ‘moving expenses’ means only the reasonable
16 expenses—

17 “(A) of moving household goods and personal
18 effects from the former residence to the new resi-
19 dence, and

20 “(B) of traveling (including meals and lodg-
21 ing) from the former residence to the new place
22 of residence.

23 “(2) **INDIVIDUALS OTHER THAN TAXPAYER.**—In
24 the case of any individual other than the taxpayer, ex-
25 penses referred to in paragraph (1) shall be taken into

1 account only if such individual has both the former resi-
2 dence and the new residence as his principal place of
3 abode and is a member of the taxpayer's household.

4 “(c) CONDITIONS FOR ALLOWANCE.—No deduction
5 shall be allowed under this section unless—

6 “(1) the taxpayer's new principal place of work—

7 “(A) is at least 20 miles farther from his for-
8 mer residence than was his former principal place
9 of work, or

10 “(B) if he had no former principal place of
11 work, is at least 20 miles from his former residence,
12 and

13 “(2) during the 12-month period immediately fol-
14 lowing his arrival in the general location of his new
15 principal place of work, the taxpayer is a full-time em-
16 ployee, in such general location, during at least 39
17 weeks.

18 “(d) RULES FOR APPLICATION OF SUBSECTION
19 (c) (2).—

20 “(1) Subsection (c) (2) shall not apply to any
21 item to the extent that the taxpayer receives reim-
22 bursement or other expense allowance from his employer
23 for such item.

24 “(2) If a taxpayer has not satisfied the condition
25 of subsection (c) (2) before the time prescribed by law

1 (including extensions thereof) for filing the return for
 2 the taxable year during which he paid or incurred mov-
 3 ing expenses which would otherwise be deductible under
 4 this section, but may still satisfy such condition, then
 5 such expenses may (at the election of the taxpayer) be
 6 deducted for such taxable year notwithstanding subsec-
 7 tion (c) (2).

8 “(3) If—

9 “(A) for any taxable year moving expenses
 10 have been deducted in accordance with the rule
 11 provided in paragraph (2), and

12 “(B) the condition of subsection (c) (2) is
 13 not satisfied by the close of the subsequent taxable
 14 year,

15 then an amount equal to the expenses which were so
 16 deducted shall be included in gross income for such sub-
 17 sequent taxable year.

18 “(e) DISALLOWANCE OF DEDUCTION WITH RESPECT
 19 TO REIMBURSEMENTS NOT INCLUDED IN GROSS INCOME.—
 20 No deduction shall be allowed under this section for any item
 21 to the extent that the taxpayer receives reimbursement or
 22 other expense allowance for such item which is not in-
 23 cluded in his gross income.

24 “(f) REGULATIONS.—The Secretary or his delegate

1 shall prescribe such regulations as may be necessary to carry
2 out the purposes of this section.”

3 (2) The table of sections for part VII of subchapter
4 B of chapter 1 is amended by striking out—

“Sec. 217. Cross references.”

5 and inserting in lieu thereof the following:

“Sec. 217. Moving expenses.

(50) ~~“Sec. 218. Certain contributions by employees for group
term life insurance.~~

“Sec. 218. Contributions to political candidates and political
committees.

“Sec. 219. Cross references.”

6 (b) ADJUSTED GROSS INCOME.—Section 62 (defining
7 adjusted gross income) is amended by inserting after para-
8 graph (7) the following new paragraph:

9 “(8) MOVING EXPENSE DEDUCTION.—The deduc-
10 tion allowed by section 217.”

11 (c) WITHHOLDING.—Section 3401 (a) (relating to
12 definition of “wages”) is amended by adding after paragraph
13 (51) (14) (added by section ~~203(e)~~ 204(b) of this Act) the
14 following new paragraph:

15 “(15) to or on behalf of an employee if (and to the
16 extent that) at the time of the payment of such remuner-
17 ation it is reasonable to believe that a corresponding
18 deduction is allowable under section 217.”

19 (d) EFFECTIVE DATES.—The amendments made by
20 subsections (a) and (b) shall apply to expenses incurred

1 after December 31, 1963, in taxable years ending after such
 2 date. The amendment made by subsection (c) shall apply
 3 with respect to remuneration paid after ~~(52)December 31,~~
 4 ~~1963~~ *the seventh day following the date of the enactment of*
 5 *this Act.*

6 **(53)SEC. 214. DEDUCTION FOR POLITICAL CONTRIBU-**
 7 **TIONS.**

8 *(a) ALLOWANCE OF DEDUCTION.—Part VII of sub-*
 9 *chapter B of chapter 1 (relating to additional itemized de-*
 10 *ductions for individuals) is amended by inserting after sec-*
 11 *tion 217 (as added by section 213(a)(1) of this Act) the*
 12 *following new section:*

13 **“SEC. 218. CONTRIBUTIONS TO POLITICAL CANDIDATES**
 14 **AND POLITICAL COMMITTEES.**

15 *“(a) ALLOWANCE OF DEDUCTION.—In the case of*
 16 *an individual, there shall be allowed as a deduction any*
 17 *political contribution payment of which is made by the tax-*
 18 *payer within the taxable year.*

19 *“(b) LIMITATIONS.—*

20 *“(1) AMOUNT.—The deduction under subsection*
 21 *(a) shall not exceed \$50 for any taxable year, except*
 22 *that, in the case of a joint return of a husband and wife*
 23 *under section 6013 for the taxable year, the deduction*
 24 *shall not exceed \$100 for the taxable year.*

25 *“(2) VERIFICATION.—The deduction under sub-*

1 *section (a) shall be allowed, with respect to any political*
 2 *contribution, only if such political contribution is verified*
 3 *in such manner as the Secretary or his delegate shall*
 4 *prescribe by regulations.*

5 *“(c) POLITICAL CONTRIBUTION DEFINED.—For pur-*
 6 *poses of this section, the term ‘political contribution’ means*
 7 *a contribution or gift to—*

8 *“(1) any political candidate, or*

9 *“(2) any political committee,*

10 *but only if such contribution or gift is made to further the*
 11 *candidacy of one or more individuals in a general, special,*
 12 *or primary election or a convention of a political party.*

13 *“(d) CROSS REFERENCE.—*

“For disallowance of deduction to estates and trusts, see sec-
tion 642 (i).”

14 *(b) TECHNICAL AMENDMENT.—Section 642 (relating*
 15 *to special rules for credits and deductions of estates and*
 16 *trusts) is amended by redesignating subsection (i) as sub-*
 17 *section (j), and by inserting after subsection (h) the follow-*
 18 *ing new subsection:*

19 *“(i) POLITICAL CONTRIBUTIONS.—An estate or trust*
 20 *shall not be allowed the deduction for political contributions*
 21 *provided by section 218.”*

22 *(c) EFFECTIVE DATE.—The amendments made by this*
 23 *section shall apply only with respect to contributions or gifts*

1 *made after the date of the enactment of this Act in taxable*
 2 *years ending after such date.*

3 **(54)SEC. 215. 100 PERCENT DIVIDENDS RECEIVED DE-**
 4 **DUCTION FOR MEMBERS OF ELECTING**
 5 **AFFILIATED GROUPS.**

6 *(a) 100 PERCENT DIVIDENDS RECEIVED DEDUC-*
 7 *TION.—Section 243 (relating to dividends received by cor-*
 8 *porations) is amended to read as follows:*

9 **“SEC. 243. DIVIDENDS RECEIVED BY CORPORATIONS.**

10 *“(a) GENERAL RULE.—In the case of a corporation,*
 11 *there shall be allowed as a deduction an amount equal to*
 12 *the following percentages of the amount received as divi-*
 13 *dends from a domestic corporation which is subject to taxa-*
 14 *tion under this chapter:*

15 *“(1) 85 percent, in the case of dividends other*
 16 *than dividends described in paragraph (2) or (3);*

17 *“(2) 100 percent, in the case of dividends re-*
 18 *ceived by a small business investment company operat-*
 19 *ing under the Small Business Investment Act of 1958;*
 20 *and*

21 *“(3) 100 percent, in the case of qualifying divi-*
 22 *dends (as defined in subsection (b)(1)).*

23 **“(b) QUALIFYING DIVIDENDS.—**

24 *“(1) DEFINITION.—For purposes of subsection*
 25 *(a)(3), the term ‘qualifying dividends’ means dividends*

received by a corporation which, at the close of the day the dividends are received, is a member of the same affiliated group of corporations (as defined in paragraph (5)) as the corporation distributing the dividends, if—

“(A) such affiliated group has made an election under paragraph (2) which is effective for the taxable years of its members which include such day, and

“(B) such dividends are distributed out of earnings and profits of a taxable year of the distributing corporation ending after December 31, 1963—

“(i) on each day of which the distributing corporation and the corporation receiving the dividends were members of such affiliated group, and

“(ii) for which an election under section 1562 (relating to election of multiple surtax exemptions) is not effective.

“(2) *ELECTION*.—An election under this paragraph shall be made for an affiliated group by the common parent corporation, and shall be made for any taxable year of the common parent corporation at such time and in such manner as the Secretary or his delegate by regulations prescribes. Such election may

1 not be made for an affiliated group for any taxable year
2 of the common parent corporation for which an election
3 under section 1562 is effective. Each corporation which
4 is a member of such group at any time during its tax-
5 able year which includes the last day of such taxable
6 year of the common parent corporation must consent
7 to such election at such time and in such manner as the
8 Secretary or his delegate by regulations prescribes.
9 An election under this paragraph shall be effective—

10 “(A) for the taxable year of each member of
11 such affiliated group which includes the last day of
12 the taxable year of the common parent corporation
13 with respect to which the election is made (except
14 that in the case of a taxable year of a member be-
15 ginning in 1963 and ending in 1964, if the election
16 is effective for the taxable year of the common par-
17 ent corporation which includes the last day of such
18 taxable year of such member, such election shall be
19 effective for such taxable year of such member, if
20 such member consents to such election with respect
21 to such taxable year), and

22 “(B) for the taxable year of each member of
23 such affiliated group which ends after the last day of
24 such taxable year of the common parent corpora-

tion but which does not include such date, unless the election is terminated under paragraph (4).

“(3) *EFFECT OF ELECTION.*—If an election by an affiliated group is effective with respect to a taxable year of the common parent corporation, then under regulations prescribed by the Secretary or his delegate—

“(A) no member of such affiliated group may consent to an election under section 1562 for such taxable year,

“(B) the members of such affiliated group shall be treated as one taxpayer for purposes of making the elections under section 901(a) (relating to allowance of foreign tax credit) and section 904(b) (1) (relating to election of overall limitation), and

“(C) the members of such affiliated group shall be limited to one—

“(i) \$100,000 minimum accumulated earnings credit under section 535(c) (2) or (3),

“(ii) \$100,000 limitation for exploration expenditures under section 615 (a) and (b),

“(iii) \$400,000 limitation for exploration expenditures under section 615(c) (1),

1 “(iv) \$25,000 limitation on small business
2 deduction of life insurance companies under
3 sections 804(a)(4) and 809(d)(10), and

4 “(v) \$100,000 exemption for purposes of
5 estimated tax filing requirements under section
6 6016 and the addition to tax under section
7 6655 for failure to pay estimated tax.

8 “(4) *TERMINATION*.—An election by an affiliated
9 group under paragraph (2) shall terminate with respect
10 to the taxable year of the common parent corporation
11 and with respect to the taxable years of the members
12 of such affiliated group which include the last day of
13 such taxable year of the common parent corporation if—

14 “(A) *CONSENT OF MEMBERS*.—Such affiliated
15 group files a termination of such election (at such
16 time and in such manner as the Secretary or his
17 delegate by regulations prescribes) with respect
18 to such taxable year of the common parent corpora-
19 tion, and each corporation which is a member of
20 such affiliated group at any time during its taxable
21 year which includes the last day of such taxable
22 year of the common parent corporation consents to
23 such termination, or

24 “(B) *REFUSAL BY NEW MEMBER TO CON-*
25 *SENT*.—During such taxable year of the common

1 *parent corporation such affiliated group includes a*
 2 *member which—*

3 *“(i) was not a member of such group*
 4 *during such common parent corporation’s im-*
 5 *mediately preceding taxable year, and*

6 *“(ii) such member files a statement that*
 7 *it does not consent to the election at such time*
 8 *and in such manner as the Secretary or his*
 9 *delegate by regulations prescribes.*

10 *“(5) DEFINITION OF AFFILIATED GROUP.—For*
 11 *purposes of this subsection, the term ‘affiliated group’ has*
 12 *the meaning assigned to it by section 1504(a), except*
 13 *that for such purposes sections 1504(b)(2) and 1504(c)*
 14 *shall not apply.*

15 *“(6) SPECIAL RULES FOR INSURANCE COMPA-*
 16 *NIES.—If an election under this subsection is effective for*
 17 *the taxable year of an insurance company subject to tax-*
 18 *ation under section 802 or 821—*

19 *“(A) part II of subchapter B of chapter 6 (re-*
 20 *lating to certain controlled corporations) shall be*
 21 *applied without regard to section 1563(a)(4) (re-*
 22 *lating to certain insurance companies) and section*
 23 *1563(b)(2)(D) (relating to certain excluded mem-*
 24 *bers) with respect to such company and the other*
 25 *corporations which are members of the controlled*

1 *group of corporations (as determined under section*
 2 *1563 without regard to subsections (a)(4) and*
 3 *(b)(2)(D)) of which such company is a member,*
 4 *and*

5 *“(B) for purposes of paragraph (1), a distri-*
 6 *bution by such company out of earnings and profits of*
 7 *a taxable year for which an election under this sub-*
 8 *section was not effective, and for which such company*
 9 *was not a component member of a controlled group of*
 10 *corporations within the meaning of section 1563*
 11 *solely by reason of section 1563(b)(2)(D), shall*
 12 *not be a qualifying dividend.*

13 *“(c) SPECIAL RULES FOR CERTAIN DISTRIBUTU-*
 14 *TIONS.—For purposes of subsection (a)—*

15 *“(1) Any amount allowed as a deduction under*
 16 *section 591 (relating to deduction for dividends paid*
 17 *by mutual savings banks, etc.) shall not be treated as*
 18 *a dividend.*

19 *“(2) A dividend received from a regulated invest-*
 20 *ment company shall be subject to the limitations pre-*
 21 *scribed in section 854.*

22 *“(3) Any dividend received from a real estate*
 23 *investment trust which, for the taxable year of the trust*
 24 *in which the dividend is paid, qualifies under part II of*

1 subchapter *M* (section 856 and following) shall not be
2 treated as a dividend.

3 “(4) Any dividend received which is described in
4 section 244 (relating to dividends received on preferred
5 stock of a public utility) shall not be treated as a
6 dividend.

7 “(d) *CERTAIN DIVIDENDS FROM FOREIGN CORPORA-*
8 *TIONS.*—For purposes of subsection (a) and for purposes of
9 section 245, any dividend from a foreign corporation from
10 earnings and profits accumulated by a domestic corporation
11 during a period with respect to which such domestic corpora-
12 tion was subject to taxation under this chapter (or corre-
13 sponding provisions of prior law) shall be treated as a
14 dividend from a domestic corporation which is subject to
15 taxation under this chapter.”

16 (b) *TECHNICAL AMENDMENTS.*—

17 (1) Section 244 (relating to dividends received on
18 certain preferred stock) is amended by inserting “(a)
19 *GENERAL RULE.*—” before “In case of a corpora-
20 tion,” and by adding at the end thereof the following
21 new subsection:

22 “(b) *EXCEPTION.*—If the dividends described in sub-
23 section (a)(1) are qualifying dividends (as defined in sec-

1 tion 243(b)(1), but determined without regard to section
2 243(c)(4)—

3 “(1) subsection (a) shall be applied separately to
4 such qualifying dividends, and

5 “(2) for purposes of subsection (a)(3), the per-
6 centage applicable to such qualifying dividends shall be
7 100 percent in lieu of 85 percent.”

8 (2) Section 246(b) (relating to limitation on
9 aggregate amount of deductions for dividends received)
10 is amended by striking out “243(a), 244,” each place
11 it appears therein and inserting in lieu thereof “243(a)
12 (1), 244(a),”.

13 (3) Section 804(a)(5) (relating to the appli-
14 cation of section 246(b) to taxable investment income
15 of life insurance companies) is amended by striking out
16 “243(a), 244,” and inserting in lieu thereof “243(a)
17 (1), 244(a),”.

18 (4) Section 809(d)(8)(B) (relating to the ap-
19 plication of section 246(b) to the life insurance com-
20 pany's share of certain dividends) is amended by
21 striking out “243(a), 244,” each place it appears
22 therein and inserting in lieu thereof “243(a)(1),
23 244(a),”.

24 (c) *EFFECTIVE DATE.*—The amendments made by

1 subsections (a) and (b) shall apply with respect to divi-
 2 dends received in taxable years ending after December 31,
 3 1963.

4 SEC. ~~(55)~~²⁴³ 216. INTEREST ON LOANS INCURRED TO
 5 PURCHASE CERTAIN INSURANCE
 6 AND ANNUITY CONTRACTS.

7 (a) DISALLOWANCE OF INTEREST DEDUCTION.—
 8 Section 264 (a) (relating to certain amounts paid in connec-
 9 tion with insurance contracts) is amended—

10 (1) by inserting after paragraph (2) the follow-
 11 ing new paragraph:

12 “(3) Except as provided in subsection (c), any
 13 amount paid or accrued on indebtedness incurred or
 14 continued to purchase or carry a life insurance, endow-
 15 ment, or annuity contract (other than a single premium
 16 contract or a contract treated as a single premium con-
 17 tract) pursuant to a plan of purchase which contem-
 18 plates the systematic direct or indirect borrowing of
 19 part or all of the increases in the cash value of such
 20 contract (either from the insurer or otherwise).”

21 (2) by adding at the end thereof the following
 22 new sentence: “Paragraph (3) shall apply only in
 23 respect of contracts purchased after ~~(56)~~ August 6, 1963
 24 December 31, 1963.”

1 (b) EXCEPTIONS.—Section 264 is amended by adding
2 at the end thereof the following new subsection:

3 “(c) EXCEPTIONS.—Subsection (a) (3) shall not ap-
4 ply to any amount paid or accrued by a person during a
5 taxable year on indebtedness incurred or continued as part
6 of a plan referred to in subsection (a) (3) —

7 “(1) if no part of 4 of the annual premiums due
8 during the 7-year period (beginning with the date the
9 first premium on the contract to which such plan relates
10 was paid) is paid under such plan by means of indebted-
11 ness,

12 “(2) if the total of the amounts paid or accrued by
13 such person during such taxable year for which (with-
14 out regard to this paragraph) no deduction would be
15 allowable by reason of subsection (a) (3) does not
16 exceed \$100,

17 “(3) if such amount was paid or accrued on in-
18 debtedness incurred because of an unforeseen substantial
19 loss of income or unforeseen substantial increase in his
20 financial obligations, or

21 “(4) if such indebtedness was incurred in con-
22 nection with his trade or business.

23 For purposes of applying paragraph (1), if there is a sub-
24 stantial increase in the premiums on a contract, a new 7-
25 year period described in such paragraph with respect to such

1 contract shall commence on the date the first such increased
2 premium is paid.”

3 (c) EFFECTIVE DATE.—The amendments made by this
4 section shall apply with respect to amounts paid or accrued
5 in taxable years beginning after December 31, 1963.

6 **(57)SEC. 217. INTEREST ON INDEBTEDNESS INCURRED**
7 **OR CONTINUED TO PURCHASE OR**
8 **CARRY TAX-EXEMPT BONDS.**

9 (a) APPLICATION WITH RESPECT TO CERTAIN FI-
10 NANCIAL INSTITUTIONS.—Section 265 (relating to expenses
11 and interest relating to tax-exempt income) is amended by
12 adding at the end of paragraph (2) the following new sen-
13 tence: “In applying the preceding sentence to a financial insti-
14 tution (other than a bank) which is subject to the banking laws
15 of the State in which such institution is incorporated, in-
16 terest on face-amount certificates (as defined in section 2(a)
17 (15) of the Investment Company Act of 1940 (15 U.S.C.
18 80a-2)) issued by such institution, and interest on amounts
19 received for the purchase of such certificates to be issued by
20 such institution, shall not be considered as interest on in-
21 debtedness incurred or continued to purchase or carry obli-
22 gations the interest on which is wholly exempt from the taxes
23 imposed by this subtitle, to the extent that the average amount
24 of such obligations held by such institution during the taxable
25 year (as determined under regulations prescribed by the Sec-

1 retary or his delegate) does not exceed 25 percent of the
 2 average of the total assets held by such institution during the
 3 taxable year (as so determined)."

4 (b) *EFFECTIVE DATE.*—The amendment made by sub-
 5 section (a) shall apply with respect to taxable years ending
 6 after the date of the enactment of this Act.

7 **(58)SEC. 218. REPEAL OF REQUIREMENT OF ALLOCA-**
 8 **TION OF CERTAIN TRAVELING EX-**
 9 **PENSES.**

10 (a) *REPEAL OF SECTION 274(c).*—Section 274 (re-
 11 lating to disallowance of certain entertainment, etc., ex-
 12 penses) is amended by striking out subsection (c) (relating
 13 to traveling).

14 (b) *EFFECTIVE DATE.*—The amendment made by sub-
 15 section (a) shall apply with respect to taxable years ending
 16 after December 31, 1962, but only in respect of periods after
 17 such date.

18 **(59)SEC. 219. ACQUISITION OF STOCK IN EXCHANGE FOR**
 19 **STOCK OF CORPORATION WHICH IS IN**
 20 **CONTROL OF ACQUIRING CORPORATION.**

21 (a) *DEFINITION OF REORGANIZATION.*—Section 368
 22 (a) (1) (relating to definition of reorganization) is amended
 23 by inserting after "voting stock" in subparagraph (B) "(or
 24 in exchange solely for all or a part of the voting stock of a

1 corporation which is in control of the acquiring
2 corporation)''.

3 (b) *TECHNICAL AMENDMENTS.*—

4 (1) Section 368(a)(2)(C) (relating to special
5 rules) is amended to read as follows:

6 “(C) *TRANSFERS OF ASSETS OR STOCK TO*
7 *SUBSIDIARIES IN CERTAIN PARAGRAPH (1)(A),*
8 *(1)(B), AND (1)(C) CASES.*—A transaction otherwise
9 qualifying under paragraph (1)(A), (1)(B), or
10 (1)(C) shall not be disqualified by reason of the
11 fact that part or all of the assets or stock which were
12 acquired in the transaction are transferred to a
13 corporation controlled by the corporation acquiring
14 such assets or stock.”

15 (2) Section 368(b) (relating to definition of party
16 to a reorganization) is amended by striking out the last
17 two sentences and inserting in lieu thereof the following:

18 “In the case of a reorganization qualifying under para-
19 graph (1)(B) or (1)(C) of subsection (a), if the
20 stock exchanged for the stock or properties is stock of
21 a corporation which is in control of the acquiring corpo-
22 ration, the term ‘a party to a reorganization’ includes
23 the corporation so controlling the acquiring corporation.
24 In the case of a reorganization qualifying under para-

1 graph (1)(A), (1)(B), or (1)(C) of subsection
 2 (a) by reason of paragraph (2)(C) of subsection (a),
 3 the term 'a party to a reorganization' includes the corpo-
 4 ration controlling the corporation to which the acquired
 5 assets or stock are transferred."

6 (c) *EFFECTIVE DATE*.—The amendments made by this
 7 section shall apply with respect to transactions after December
 8 31, 1963, in taxable years ending after such date.

9 **(60)SEC. 220. RETROACTIVE QUALIFICATION OF CER-**
 10 **TAIN UNION-NEGOTIATED MULTIEM-**
 11 **PLOYER PENSION PLANS.**

12 (a) *BEGINNING OF PERIOD AS QUALIFIED TRUST*.—
 13 Section 401 (relating to qualified pension, profit-sharing, and
 14 stock bonus plans) is amended by redesignating subsection
 15 (i) as subsection (j), and by inserting after subsection (h)
 16 the following new subsection:

17 “(i) *CERTAIN UNION-NEGOTIATED MULTIEMPLOYER*
 18 *PENSION PLANS*.—In the case of a trust forming part of a
 19 pension plan which has been determined by the Secretary or
 20 his delegate to constitute a qualified trust under subsection
 21 (a) and to be exempt from taxation under section 501(a)
 22 for a period beginning after contributions were first made to
 23 or for such trust, if it is shown to the satisfaction of the Sec-
 24 retary or his delegate that—

25 “(1) such trust was created pursuant to a collective

1 *bargaining agreement between employee representatives*
2 *and two or more employers who are not related (deter-*
3 *mined under regulations prescribed by the Secretary or*
4 *his delegate),*

5 *“(2) any disbursements of contributions, made to or*
6 *for such trust before the time as of which the Secretary or*
7 *his delegate determined that the trust constituted a quali-*
8 *fied trust, substantially complied with the terms of the*
9 *trust, and the plan of which the trust is a part, as subse-*
10 *quently qualified, and*

11 *“(3) before the time as of which the Secretary or his*
12 *delegate determined that the trust constitutes a qualified*
13 *trust, the contributions to or for such trust were not*
14 *used in a manner which would jeopardize the interests*
15 *of its beneficiaries,*

16 *then such trust shall be considered as having constituted a*
17 *qualified trust under subsection (a) and as having been*
18 *exempt from taxation under section 501(a) for the period*
19 *beginning on the date on which contributions were first made*
20 *to or for such trust and ending on the date such trust first con-*
21 *stituted (without regard to this subsection) a qualified trust*
22 *under subsection (a).”*

23 *(b) EFFECTIVE DATE.—The amendments made by*
24 *subsection (a) shall apply with respect to taxable years*
25 *beginning after December 31, 1953, and ending after Au-*

1 *gust 16, 1954, but only with respect to contributions made*
 2 *after December 31, 1954.*

3 **(61)SEC. 221. QUALIFIED PENSION, ETC., PLAN COVER-**
 4 **AGE FOR EMPLOYEES OF CERTAIN SUB-**
 5 **SIDIARY EMPLOYERS.**

6 *(a) EMPLOYEES OF FOREIGN SUBSIDIARIES COVERED*
 7 *BY SOCIAL SECURITY AGREEMENTS.—Part I of subchapter*
 8 *D of chapter 1 (relating to pension, profit-sharing, stock*
 9 *bonus plans, etc.) is amended by adding at the end thereof*
 10 *the following new section:*

11 **“SEC. 406. CERTAIN EMPLOYEES OF FOREIGN SUBSIDI-**
 12 **ARIES.**

13 *“(a) TREATMENT AS EMPLOYEES OF DOMESTIC COR-*
 14 *PORATION.—For purposes of applying this part with respect*
 15 *to a pension, profit-sharing, or stock bonus plan described in*
 16 *section 401(a), an annuity plan described in section 403(a),*
 17 *or a bond purchase plan described in section 405(a), of a*
 18 *domestic corporation, an individual who is a citizen of the*
 19 *United States and who is an employee of a foreign subsidiary*
 20 *(as defined in section 3121(l)(8)) of such domestic corpo-*
 21 *ration shall be treated as an employee of such domestic*
 22 *corporation, if—*

23 *“(1) such domestic corporation has entered into an*
 24 *agreement under section 3121(l) which applies to the*

1 *foreign subsidiary of which such individual is an em-*
 2 *ployee;*

3 *“(2) the plan of such domestic corporation expressly*
 4 *provides for contributions or benefits for individuals who*
 5 *are citizens of the United States and who are employees*
 6 *of its foreign subsidiaries to which an agreement entered*
 7 *into by such domestic corporation under section 3121*
 8 *(l) applies; and*

9 *“(3) contributions under a funded plan of deferred*
 10 *compensation (whether or not a plan described in section*
 11 *401(a), 403(a), or 405(a)) are not provided by any*
 12 *other person with respect to the remuneration paid to*
 13 *such individual by the foreign subsidiary.*

14 *“(b) SPECIAL RULES FOR APPLICATION OF SECTION*
 15 *401(a).—*

16 *“(1) NONDISCRIMINATION REQUIREMENTS.—For*
 17 *purposes of applying paragraphs (3)(B) and (4) of*
 18 *section 401(a) with respect to an individual who is*
 19 *treated as an employee of a domestic corporation under*
 20 *subsection (a)—*

21 *“(A) if such individual is an officer, share-*
 22 *holder, or person whose principal duties consist in*
 23 *supervising the work of other employees of a for-*
 24 *ign subsidiary of such domestic corporation, he*

1 *shall be treated as having such capacity with respect*
2 *to such domestic corporation; and*

3 *“(B) the determination of whether such indi-*
4 *vidual is a highly compensated employee shall be*
5 *made by treating such individual’s total compensa-*
6 *tion (determined with the application of paragraph*
7 *(2) of this subsection) as compensation paid by*
8 *such domestic corporation and by determining such*
9 *individual’s status with regard to such domestic*
10 *corporation.*

11 *“(2) DETERMINATION OF COMPENSATION.—For*
12 *purposes of applying paragraph (5) of section 401(a)*
13 *with respect to an individual who is treated as an em-*
14 *ployee of a domestic corporation under subsection (a)—*

15 *“(A) the total compensation of such individual*
16 *shall be the remuneration paid to such individual*
17 *by the foreign subsidiary which would constitute*
18 *his total compensation if his services had been per-*
19 *formed for such domestic corporation, and the basic*
20 *or regular rate of compensation of such individual*
21 *shall be determined under regulations prescribed*
22 *by the Secretary or his delegate; and*

23 *“(B) such individual shall be treated as having*
24 *paid the amount paid by such domestic corporation*

1 which is equivalent to the tax imposed by section
2 3101.

3 “(c) *TERMINATION OF STATUS AS DEEMED EM-*
4 *PLOYEE NOT TO BE TREATED AS SEPARATION FROM SERV-*
5 *ICE FOR PURPOSES OF CAPITAL GAIN PROVISIONS.*—For
6 purposes of applying section 402(a)(2) and section 403
7 (a)(2) with respect to an individual who is treated as an
8 employee of a domestic corporation under subsection (a),
9 such individual shall not be considered as separated from the
10 service of such domestic corporation solely by reason of the
11 fact that—

12 “(1) the agreement entered into by such domestic
13 corporation under section 3121(l) which covers the
14 employment of such individual is terminated under the
15 provisions of such section,

16 “(2) such individual becomes an employee of a
17 foreign subsidiary with respect to which such agreement
18 does not apply,

19 “(3) such individual ceases to be an employee of the
20 foreign subsidiary by reason of which he is treated as
21 an employee of such domestic corporation, if he becomes
22 an employee of another corporation controlled by such
23 domestic corporation, or

1 “(4) the provision of the plan described in subsec-
2 tion (a)(2) is terminated.

3 “(d) DEDUCTIBILITY OF CONTRIBUTIONS.—For pur-
4 poses of applying sections 404 and 405(c) with respect to
5 contributions made to or under a pension, profit-sharing, stock
6 bonus, annuity, or bond purchase plan by a domestic cor-
7 poration, or by another corporation which is entitled to de-
8 duct its contributions under section 404(a)(3)(B), on behalf
9 of an individual who is treated as an employee of such domes-
10 tic corporation under subsection (a)—

11 “(1) except as provided in paragraph (2), no de-
12 duction shall be allowed to such domestic corporation or
13 to any other corporation which is entitled to deduct its
14 contributions under such sections,

15 “(2) there shall be allowed as a deduction to the
16 foreign subsidiary of which such individual is an em-
17 ployee an amount equal to the amount which (but for
18 paragraph (1)) would be deductible under section 404
19 (or section 405(c)) by the domestic corporation if he
20 were an employee of the domestic corporation, and

21 “(3) any reference to compensation shall be con-
22 sidered to be a reference to the total compensation of
23 such individual (determined with the application of sub-
24 section (b)(2)).

1 Any amount deductible by a foreign subsidiary under this
 2 subsection shall be deductible for its taxable year with or
 3 within which the taxable year of such domestic corporation
 4 ends.

5 “(e) *TREATMENT AS EMPLOYEE UNDER RELATED*
 6 *PROVISIONS.*—An individual who is treated as an employee
 7 of a domestic corporation under subsection (a) shall also be
 8 treated as an employee of such domestic corporation, with
 9 respect to the plan described in subsection (a)(2), for pur-
 10 poses of applying the following provisions of this title:

11 “(1) Section 72(d) (relating to employees’ an-
 12 nnuities).

13 “(2) Section 72(f) (relating to special rules for
 14 computing employees’ contributions).

15 “(3) Section 101(b) (relating to employees’ death
 16 benefits).

17 “(4) Section 2039 (relating to annuities).

18 “(5) Section 2517 (relating to certain annuities
 19 under qualified plans).”

20 (b) *EMPLOYEES OF DOMESTIC SUBSIDIARIES EN-*
 21 *GAGED IN BUSINESS OUTSIDE THE UNITED STATES.*—
 22 Part I of subchapter D of chapter 1 (relating to pension,
 23 profit-sharing, stock bonus plans, etc.) is amended by adding

1 after section 406 (as added by subsection (a)) the following
 2 new section:

3 “SEC. 407. CERTAIN EMPLOYEES OF DOMESTIC SUBSIDI-
 4 ARIES ENGAGED IN BUSINESS OUTSIDE THE
 5 UNITED STATES.

6 “(a) TREATMENT AS EMPLOYEES OF DOMESTIC
 7 PARENT CORPORATION.—

8 “(1) IN GENERAL.—For purposes of applying this
 9 part with respect to a pension, profit-sharing, or stock
 10 bonus plan described in section 401(a), an annuity plan
 11 described in section 403(a), or a bond purchase plan de-
 12 scribed in section 405(a), of a domestic parent corpora-
 13 tion, an individual who is a citizen of the United States
 14 and who is an employee of a domestic subsidiary (within
 15 the meaning of paragraph (2)) of such domestic parent
 16 corporation shall be treated as an employee of such do-
 17 mestic parent corporation, if—

18 “(A) the plan of such domestic parent corpora-
 19 tion expressly provides for contributions or benefits
 20 for individuals who are citizens of the United States
 21 and who are employees of its domestic subsidiaries;
 22 and

23 “(B) contributions under a funded plan of de-
 24 ferred compensation (whether or not a plan de-
 25 scribed in section 401(a), 403(a), or 405(a)) are

1 not provided by any other person with respect to the
2 remuneration paid to such individual by the domestic
3 subsidiary.

4 “(2) *DEFINITIONS.*—For purposes of this section—

5 “(A) *DOMESTIC SUBSIDIARY.*—A corporation
6 shall be treated as a domestic subsidiary for any
7 taxable year only if—

8 “(i) such corporation is a domestic cor-
9 poration 80 percent or more of the outstanding
10 voting stock of which is owned by another domes-
11 tic corporation;

12 “(ii) 95 percent or more of its gross in-
13 come for the three-year period immediately pre-
14 ceding the close of its taxable year which ends on
15 or before the close of the taxable year of such
16 other domestic corporation (or for such part of
17 such period during which the corporation was
18 in existence) was derived from sources without
19 the United States; and

20 “(iii) 90 percent or more of its gross income
21 for such period (or such part) was derived from
22 the active conduct of a trade or business.

23 “(B) *DOMESTIC PARENT CORPORATION.*—The
24 domestic parent corporation of any domestic sub-

1 *subsidiary is the domestic corporation which owns 80*
 2 *percent or more of the outstanding voting stock of*
 3 *such domestic subsidiary.*

4 *“(b) SPECIAL RULES FOR APPLICATION OF SECTION*
 5 *401(a).—*

6 *“(1) NONDISCRIMINATION REQUIREMENTS.—For*
 7 *purposes of applying paragraphs (3)(B) and (4) of*
 8 *section 401(a) with respect to an individual who is*
 9 *treated as an employee of a domestic parent corporation*
 10 *under subsection (a)—*

11 *“(A) if such individual is an officer, share-*
 12 *holder, or person whose principal duties consist in*
 13 *supervising the work of other employees of a domes-*
 14 *tic subsidiary, he shall be treated as having such*
 15 *capacity with respect to such domestic parent cor-*
 16 *poration; and*

17 *“(B) the determination of whether such indi-*
 18 *vidual is a highly compensated employee shall be*
 19 *made by treating such individual’s total compensa-*
 20 *tion (determined with the application of paragraph*
 21 *(2) of this subsection) as compensation paid by*
 22 *such domestic parent corporation and by determin-*
 23 *ing such individual’s status with regard to such*
 24 *domestic parent corporation.*

25 *“(2) DETERMINATION OF COMPENSATION.—*

For purposes of applying paragraph (5) of section 401(a) with respect to an individual who is treated as an employee of a domestic parent corporation under subsection (a), the total compensation of such individual shall be the remuneration paid to such individual by the domestic subsidiary which would constitute his total compensation if his services had been performed for such domestic parent corporation, and the basic or regular rate of compensation of such individual shall be determined under regulations prescribed by the Secretary or his delegate.

“(c) *TERMINATION OF STATUS AS DEEMED EMPLOYEE NOT TO BE TREATED AS SEPARATION FROM SERVICE FOR PURPOSES OF CAPITAL GAIN PROVISIONS.*—For purposes of applying section 402(a)(2) and section 403(a)(2) with respect to an individual who is treated as an employee of a domestic parent corporation under subsection (a), such individual shall not be considered as separated from the service of such domestic parent corporation solely by reason of the fact that—

“(1) the corporation of which such individual is an employee ceases, for any taxable year, to be a domestic subsidiary within the meaning of subsection (a)(2)(A),

“(2) such individual ceases to be an employee of a domestic subsidiary of such domestic parent corpora-

1 tion, if he becomes an employee of another corporation
2 controlled by such domestic parent corporation, or

3 “(3) the provision of the plan described in sub-
4 section (a)(1)(A) is terminated.

5 “(d) DEDUCTIBILITY OF CONTRIBUTIONS.—For pur-
6 poses of applying sections 404 and 405(c) with respect to
7 contributions made to or under a pension, profit-sharing,
8 stock bonus, annuity, or bond purchase plan by a domestic
9 parent corporation, or by another corporation which is en-
10 titled to deduct its contributions under section 404(a)(3)(B),
11 on behalf of an individual who is treated as an employee of
12 such domestic corporation under subsection (a)—

13 “(1) except as provided in paragraph (2), no de-
14 duction shall be allowed to such domestic parent corpora-
15 tion or to any other corporation which is entitled to
16 deduct its contributions under such sections,

17 “(2) there shall be allowed as a deduction to the
18 domestic subsidiary of which such individual is an
19 employee an amount equal to the amount which (but for
20 paragraph (1)) would be deductible under section 404
21 (or section 405(c)) by the domestic parent corporation
22 if he were an employee of the domestic parent corpora-
23 tion, and

“(3) any reference to compensation shall be considered to be a reference to the total compensation of such individual (determined with the application of subsection (b)(2)).

Any amount deductible by a domestic subsidiary under this subsection shall be deductible for its taxable year with or within which the taxable year of such domestic parent corporation ends.

“(e) *TREATMENT AS EMPLOYEE UNDER RELATED PROVISIONS.*—An individual who is treated as an employee of a domestic parent corporation under subsection (a) shall also be treated as an employee of such domestic parent corporation, with respect to the plan described in subsection (a)(1)(A), for purposes of applying the following provisions of this title:

“(1) Section 72(d) (relating to employees’ annuities).

“(2) Section 72(f) (relating to special rules for computing employees’ contributions).

“(3) Section 101(b) (relating to employees’ death benefits).

“(4) Section 2039 (relating to annuities).

1 “(5) Section 2517 (relating to certain annuities
2 under qualified plans).”

3 (c) *TECHNICAL AMENDMENTS.*—

4 (1) The table of sections for part I of subchapter
5 D of chapter 1 is amended by adding at the end thereof
6 the following:

 “Sec. 406. Certain employees of foreign subsidiaries.

 “Sec. 407. Certain employees of domestic subsidiaries en-
 gaged in business outside the United States.”

7 (2) Section 3121(a)(5) (relating to definition of
8 wages) is amended by striking out “or” at the end of
9 subparagraph (A) and by striking out subparagraph
10 (B) and inserting in lieu thereof the following new sub-
11 paragraphs:

12 “(B) under or to an annuity plan which, at
13 the time of such payment, is a plan described in
14 section 403(a), or

15 “(C) under or to a bond purchase plan which,
16 at the time of such payment, is a qualified bond pur-
17 chase plan described in section 405(a);”.

18 (3) Section 209(e) of the Social Security Act
19 (relating to the definition of wages) is amended to read
20 as follows:

21 “(e) Any payment made to, or on behalf of, an em-
22 ployee or his beneficiary (1) from or to a trust exempt

1 from tax under section 165(a) of the Internal Revenue
 2 Code of 1939 at the time of such payment or, in the case
 3 of a payment after 1954, under sections 401 and 501(a)
 4 of the Internal Revenue Code of 1954, unless such pay-
 5 ment is made to an employee of the trust as remuneration
 6 for services rendered as such employee and not as a bene-
 7 ficiary of the trust, or (2) under or to an annuity plan
 8 which, at the time of such payment, meets the requirements
 9 of section 165(a) (3), (4), (5), and (6) of the Internal
 10 Revenue Code of 1939 or, in the case of a payment after
 11 1954 and prior to 1963, the requirements of section 401(a)
 12 (3), (4), (5), and (6) of the Internal Revenue Code of
 13 1954, or (3) under or to an annuity plan which, at the
 14 time of any such payment after 1962, is a plan described
 15 in section 403(a) of the Internal Revenue Code of 1954,
 16 or (4) under or to a bond purchase plan which, at the time
 17 of any such payment after 1962, is a qualified bond pur-
 18 chase plan described in section 405(a) of the Internal Rev-
 19 enue Code of 1954;”.

20 (d) *EFFECTIVE DATE.*—The amendments made by
 21 subsections (a), (b), and (c) (1) shall apply to taxable years
 22 ending after December 31, 1963. The amendments made by
 23 subsections (c) (2) and (3) shall apply to remuneration
 24 paid after December 31, 1962.

1 SEC. (62)244 222. EMPLOYEE STOCK OPTIONS AND PUR-
 2 CHASE PLANS.

3 (a) IN GENERAL.—Part II of subchapter D of chapter
 4 1 is amended to read as follows:

5 “PART II—CERTAIN STOCK OPTIONS

“Sec. 421. General rules.

“Sec. 422. Qualified stock options.

“Sec. 423. Employee stock purchase plans.

“Sec. 424. Restricted stock options.

“Sec. 425. Definitions and special rules.

6 “SEC. 421. GENERAL RULES.

7 “(a) EFFECT OF QUALIFYING TRANSFER.—If a share
 8 of stock is transferred to an individual in a transfer in
 9 respect of which the requirements of section 422 (a),
 10 423 (a), or 424 (a) are met—

11 “(1) except as provided in section 422 (c) (1),
 12 no income shall result at the time of the transfer of
 13 such share to the individual upon his exercise of the
 14 option with respect to such share;

15 “(2) no deduction under section 162 (relating
 16 to trade or business expenses) shall be allowable at
 17 any time to the employer corporation, a parent or
 18 subsidiary corporation of such corporation, or a corpora-
 19 tion issuing or assuming a stock option in a transaction
 20 to which section 425 (a) applies, with respect to the
 21 share so transferred; and

22 “(3) no amount other than the price paid under

1 the option shall be considered as received by any of
2 such corporations for the share so transferred.

3 “(b) EFFECT OF DISQUALIFYING DISPOSITION.—If
4 the transfer of a share of stock to an individual pursuant to
5 his exercise of an option would otherwise meet the require-
6 ments of section 422 (a), 423 (a), or 424 (a) except that
7 there is a failure to meet any of the holding period require-
8 ments of section 422 (a) (1), 423 (a) (1), or 424 (a) (1),
9 then any increase in the income of such individual or deduc-
10 tion from the income of his employer corporation for the
11 taxable year in which such exercise occurred attributable to
12 such disposition, shall be treated as an increase in income or
13 a deduction from income in the taxable year of such in-
14 dividual or of such employer corporation in which such dis-
15 position occurred.

16 “(c) EXERCISE BY ESTATE.—

17 “(1) IN GENERAL.—If an option to which this part
18 applies is exercised after the death of the employee by
19 the estate of the decedent, or by a person who acquired
20 the right to exercise such option by bequest or in-
21 heritance or by reason of the death of the decedent,
22 the provisions of subsection (a) shall apply to the same
23 extent as if the option had been exercised by the dece-
24 dent, except that—

25 “(A) the holding period and employment

1 requirements of sections 422 (a), 423 (a), and 424
2 (a) shall not apply, and

3 “(B) any transfer by the estate of stock ac-
4 quired shall be considered a disposition of such stock
5 for purposes of sections 423 (c) and 424 (c) (1).

6 “(2) DEDUCTION FOR ESTATE TAX.—If an amount
7 is required to be included under section 422 (c) (1),
8 423 (c), or 424 (c) (1) in gross income of the estate
9 of the deceased employee or of a person described in
10 paragraph (1), there shall be allowed to the estate or
11 such person a deduction with respect to the estate tax
12 attributable to the inclusion in the taxable estate of
13 the deceased employee of the net value for estate tax
14 purposes of the option. For this purpose, the deduction
15 shall be determined under section 691 (c) as if the
16 option acquired from the deceased employee were an
17 item of gross income in respect of the decedent under
18 section 691 and as if the amount includible in gross
19 income under section 422 (c) (1), 423 (c), or 424 (c)
20 (1) were an amount included in gross income under
21 section 691 in respect of such item of gross income.

22 “(3) BASIS OF SHARES ACQUIRED.—In the case of
23 a share of stock acquired by the exercise of an option
24 to which paragraph (1) applies—

25 “(A) the basis of such share shall include so

much of the basis of the option as is attributable to such share; except that the basis of such share shall be reduced by the excess (if any) of (i) the ~~(63) amount~~, *amount* which would have been includible in gross income under section 422 (c) (1), 423 (c), or 424 (c) (1) if the employee had exercised the option on the date of his death and had held the share acquired pursuant to such exercise at the time of his death, over (ii) the amount which is includible in gross income under such section; and

“(B) the last sentence of sections 422 (c) (1), 423 (c), and 424 (c) (1) shall apply only to the extent that the amount includible in gross income under such sections exceeds so much of the basis of the option as is attributable to such share.

“SEC. 422. QUALIFIED STOCK OPTIONS.

“(a) IN GENERAL.—Subject to the provisions of subsection (c) (1), section 421 (a) shall apply with respect to the transfer of a share of stock to an individual pursuant to his exercise of a qualified stock option if—

“(1) no disposition of such share is made by such individual within the 3-year period beginning on the day after the day of the transfer of such share, and

“(2) at all times during the period beginning with the date of the granting of the option and ending on

1 the day 3 months before the date of such exercise, such
 2 individual was an employee of either the corporation
 3 granting such option, a parent or subsidiary corporation
 4 of such corporation, or a corporation or a parent or sub-
 5 sidiary corporation of such corporation issuing or assum-
 6 ing a stock option in a transaction to which section
 7 425 (a) applies.

8 “(b) QUALIFIED STOCK OPTION.—For purposes of this
 9 part, the term ‘qualified stock option’ means an option
 10 granted to an individual after ~~(64) June 11, 1963~~ *December*
 11 *31, 1963* (other than a restricted stock option granted pur-
 12 suant to a contract described in section ~~(65) 424 (e) (4) (A)~~
 13 *424 (c) (3) (A)*), for any reason connected with his employ-
 14 ment by a corporation, if granted by the employer corpora-
 15 tion or its parent or subsidiary corporation, to purchase stock
 16 of any of such corporations, but only if—

17 “(1) the option is granted pursuant to a plan
 18 which includes the aggregate number of shares which
 19 may be issued under options. and the employees (or
 20 class of employees) eligible to receive options, and
 21 which is approved by the stockholders of the granting
 22 corporation within 12 months before or after the date
 23 such plan is adopted;

24 “(2) such option is granted within 10 years from

1 the date such plan is adopted, or the date such plan
2 is approved by the stockholders, whichever is earlier;

3 “(3) such option by its terms is not exercisable
4 after the expiration of 5 years from the date such
5 option is granted;

6 “(4) except as provided in subsection (c) (1),
7 the option price is not less than the fair market value
8 of the stock at the time such option is granted;

9 “(5) such option by its terms is not exercisable
10 while there is outstanding (within the meaning of sub-
11 section (c) (2)) any qualified stock option (or re-
12 stricted stock option) which was granted, before the
13 granting of such option, to such individual to purchase
14 stock in his employer corporation or in a corporation
15 which (at the time of the granting of such option) is a
16 parent or subsidiary corporation of the employer corpora-
17 tion, or in a predecessor corporation of any of such
18 corporations;

19 “(6) such option by its terms is not transferable
20 by such individual otherwise than by will or the laws
21 of descent and distribution, and is exercisable, during
22 his lifetime, only by him; and

23 “(7) such individual, immediately after such option
24 is granted, does not own stock possessing more than 5

1 percent of the total combined voting power or value of
2 all classes of stock of the employer corporation or of its
3 parent or subsidiary corporation; except that if the
4 equity capital of such corporation or corporations (de-
5 termined at the time the option is granted) is less than
6 \$2,000,000, then, for purposes of applying the limita-
7 tion of this paragraph, there shall be added to such
8 5 percent the percentage (not higher than 5 percent)
9 which bears the same ratio to 5 percent as the difference
10 between such equity capital and \$2,000,000 bears to
11 \$1,000,000.

12 “(c) SPECIAL RULES.—

13 “(1) EXERCISE OF OPTION WHEN PRICE IS LESS
14 THAN VALUE OF STOCK.—If a share of stock is trans-
15 ferred pursuant to the exercise by an individual of an
16 option which fails to qualify as a qualified stock option
17 under subsection (b) because there was a failure in an
18 attempt, made in good faith, to meet the requirement of
19 subsection (b) (4), the requirement of subsection (b)
20 (4) shall be considered to have been met, but there
21 shall be included as compensation (and not as gain upon
22 the sale or exchange of a capital asset) in his gross in-
23 come for the taxable year in which such option is ex-
24 ercised, an amount equal to the lesser of—

25 “(A) 150 percent of the difference between

the option price and the fair market value of the share at the time the option was granted, or

“(B) the difference between the option price and the fair market value of the share at the time of such exercise.

The basis of the share acquired shall be increased by an amount equal to the amount included in his gross income under this paragraph in the taxable year in which the exercise occurred.

“(2) CERTAIN OPTIONS TREATED AS OUTSTANDING.—For purposes of subsection (b) (5) —

“(A) any restricted stock option which is not terminated before January 1, 1965, and

“(B) any qualified stock option granted after ~~(66) June 11, 1963,~~ *December 31, 1963,*

shall be treated as outstanding until such option is exercised in full or expires by reason of the lapse of time.

For purposes of the preceding sentence, a restricted stock option granted before ~~(67) June 12, 1963,~~ *January 1, 1964,* shall not be treated as outstanding for any period before the first day on which (under the terms of such option) it may be exercised.

“(3) OPTIONS GRANTED TO CERTAIN SHAREHOLDERS.—For purposes of subsection (b) (7) —

1 “(A) the term ‘equity capital’ means—

2 “(i) in the case of one corporation, the
3 sum of its money and other property (in an
4 amount equal to the adjusted basis of such
5 property for determining gain), less the amount
6 of its indebtedness (other than indebtedness to
7 shareholders), and

8 “(ii) in the case of a group of corporations
9 consisting of a parent and its subsidiary cor-
10 porations, the sum of the equity capital of each
11 of such corporations adjusted, under regulations
12 prescribed by the Secretary or his delegate, to
13 eliminate the effect of intercorporate ownership
14 ~~(68)~~*or* and transactions among such corpora-
15 tions;

16 “(B) the rules of section 425 (d) shall apply
17 in determining the stock ownership of the indi-
18 vidual; and

19 “(C) stock which the individual may purchase
20 under outstanding options shall be treated as stock
21 owned by such individual.

22 If an individual is granted an option which permits
23 him to purchase stock in excess of the limitation of
24 subsection (b) (7) (determined by applying the rules
25 of this paragraph), such option shall be treated as

meeting the requirement of subsection (b) (7) to the extent that such individual could, if the option were fully exercised at the time of grant, purchase stock under such option without exceeding such limitation. The portion of such option which is treated as meeting the requirement of subsection (b) (7) shall be deemed to be that portion of the option which is first exercised.

“(4) CERTAIN DISQUALIFYING DISPOSITIONS WHERE AMOUNT REALIZED IS LESS THAN VALUE AT EXERCISE.—If—

“(A) an individual who has acquired a share of stock by the exercise of a qualified stock option makes a disposition of such share within the 3-year period described in subsection (a) (1), and

“(B) such disposition is a sale or exchange with respect to which a loss (if sustained) would be recognized to such individual,

then the amount which is includible in the gross income of such individual, and the amount which is deductible from the income of his employer corporation, as compensation attributable to the exercise of such option shall not exceed the excess (if any) of the amount realized on such sale or exchange over the ~~(69) amount paid for~~ *adjusted basis* of such share.

1 “(5) CERTAIN TRANSFERS BY INSOLVENT INDIVIDUALS.—If an insolvent individual holds a share of
2 stock acquired pursuant to his exercise of a qualified
3 stock option, and if such share is transferred to a trustee,
4 receiver, or other similar fiduciary, in any proceeding
5 under the Bankruptcy Act or any other similar insolvency proceeding, neither such transfer, nor any other
6 transfer of such share for the benefit of his creditors
7 in such proceeding, shall constitute a ‘disposition of
8 such share’ for purposes of subsection (a) (1).
9

10 **(70)**“(6) EXCEPTION TO APPLICATION OF SUBSECTION (b)(5).—Paragraph (5) of subsection (b) shall
11 not apply if—
12
13

14 “(A) the option being granted and all outstanding qualified (or restricted) stock options referred
15 to in subsection (b)(5) are to purchase stock of the
16 same class in the same corporation, and
17

18 “(B) the price payable under each such outstanding option (as of the date of grant of the
19 option being granted) is not more than the option
20 price of the option being granted.
21

22 **“SEC. 423. EMPLOYEE STOCK PURCHASE PLANS.**

23 “(a) GENERAL RULE.—Section 421 (a) shall apply
24 with respect to the transfer of a share of stock to an individual pursuant to his exercise of an option granted after
25

1 ~~(71)~~ June 11, 1963 December 31, 1963 (other than a re-
 2 stricted stock option granted pursuant to a plan described in
 3 section ~~(72)424(e)-(4)-(B)~~ 424(c)(3)(B)), under an em-
 4 ployee stock purchase plan (as defined in subsection (b))
 5 if—

6 “(1) no disposition of such share is made by him
 7 within 2 years after the date of the granting of the
 8 option nor within 6 months after the transfer of such
 9 share to him; and

10 “(2) at all times during the period beginning with
 11 the date of the granting of the option and ending on
 12 the day 3 months before the date of such exercise, he
 13 is an employee of the corporation granting such option,
 14 a parent or subsidiary corporation of such corporation,
 15 or a corporation or a parent or subsidiary corporation
 16 of such corporation issuing or assuming a stock option
 17 in a transaction to which section 425(a) applies.

18 “(b) EMPLOYEE STOCK PURCHASE PLAN.—For pur-
 19 poses of this part, the term ‘employee stock purchase plan’
 20 means a plan which meets the following requirements:

21 “(1) the plan provides that options are to be
 22 granted only to employees of the employer corporation
 23 or of its parent or subsidiary corporation to purchase
 24 stock in any such ~~(73)corporations~~ corporation;

25 “(2) such plan is approved by the stockholders

1 of the granting corporation within 12 months before or
2 after the date such plan is adopted;

3 “(3) under the terms of the plan, no employee can
4 be granted an option if such employee, immediately
5 after the option is granted, owns stock possessing 5 per-
6 cent or more of the total combined voting power or value
7 of all classes of stock of the employer corporation or of
8 its parent or subsidiary corporation. For purposes of
9 this paragraph, the rules of section 425 (d) shall apply
10 in determining the stock ownership of an individual, and
11 stock which the employee may purchase under outstand-
12 ing options shall be treated as stock owned by the em-
13 ployee;

14 “(4) under the terms of the plan, options are to be
15 granted to all employees of any corporation whose em-
16 ployees are granted any of such options by reason of
17 their employment by such corporation, except that there
18 may be excluded—

19 “(A) employees who have been employed less
20 than 2 years,

21 “(B) employees whose customary employment
22 is 20 hours or less per week,

23 “(C) employees whose customary employment
24 is for not more than 5 months in any calendar year,
25 and

1 “(D) officers, persons whose principal duties
2 consist of supervising the work of other employees,
3 or highly compensated employees;

4 “(5) under the terms of the plan, all employees
5 granted such options shall have the same rights and
6 privileges, except that the amount of stock which may
7 be purchased by any employee under such option may
8 bear a uniform relationship to the total compensation,
9 or the basic or regular rate of compensation, of em-
10 ployees, and the plan may provide that no employee
11 may purchase more than a maximum amount of stock
12 fixed under the plan;

13 “(6) under the terms of the plan, the option price
14 is not less than the lesser of—

15 “(A) an amount equal to 85 percent of the
16 fair market value of the stock at the time such option
17 is granted, or

18 “(B) an amount which under the terms of the
19 option may not be less than 85 percent of the fair
20 market value of the stock at the time such option is
21 exercised;

22 “(7) under the terms of the plan, such option can-
23 not be exercised after the expiration of—

24 “(A) 5 years from the date such option is
25 granted if, under the terms of such plan, the option

1 price is to be not less than 85 percent of the fair
2 market value of such stock at the time of the exer-
3 cise of the option, or

4 “(B) 27 months from the date such option is
5 granted, if the option price is not determinable in
6 the manner described in subparagraph (A) ;

7 “(8) under the terms of the plan, no employee
8 may be granted an option which permits his rights to
9 purchase stock under all such plans of his employer
10 corporation and its parent and subsidiary corporations
11 to accrue at a rate which exceeds \$25,000 of fair mar-
12 ket value of such stock (determined at the time such
13 option is granted) for each calendar year in which such
14 option is outstanding at any time. For purposes of this
15 paragraph—

16 “(A) the right to purchase stock under an
17 option accrues when the option (or any portion
18 thereof) first becomes exercisable during the
19 calendar year;

20 “(B) the right to purchase stock under an
21 option accrues at the rate provided in the option,
22 but in no case may such rate exceed \$25,000 of
23 fair market value of such stock (determined at the
24 time such option is granted) for any one calendar
25 year; and

1 “(C) a right to purchase stock which has
2 accrued under one option granted pursuant to the
3 plan may not be carried over to any other option;
4 and

5 “(9) under the terms of the plan, such option is
6 not transferable by such individual otherwise than by
7 will or the laws of descent and distribution, and is exer-
8 cisable, during his lifetime, only by him.

9 For purposes of paragraphs (3) to (9), inclusive, where
10 additional terms are contained in an offering made under a
11 plan, such additional terms shall, with respect to options
12 exercised under such offering, be treated as a part of the
13 terms of such plan.

14 “(c) SPECIAL RULE WHERE OPTION PRICE IS BETWEEN
15 85 PERCENT AND 100 PERCENT OF VALUE OF STOCK.—If the
16 option price of a share of stock acquired by an individual pursu-
17 ant to a transfer to which subsection (a) applies was less than
18 100 percent of the fair market value of such share at the
19 time such option was granted, then, in the event of any
20 disposition of such share by him which meets the holding
21 period requirements of subsection (a), or in the event of
22 his death (whenever occurring) while owning such share,
23 there shall be included as compensation (and not as gain
24 upon the sale or exchange of a capital asset) in his gross
25 income, for the taxable year in which falls the date of

1 such disposition or for the taxable year closing with his
2 death, whichever applies, an amount equal to the lesser of—

3 “(1) the excess of the fair market value of the
4 share at the time of such disposition or death over
5 the amount paid for the share under the option, or

6 “(2) the excess of the fair market value of the
7 share at the time the option was granted over the option
8 price.

9 If the option price is not fixed or determinable at the time
10 the option is granted, then for purposes of this subsection,
11 the option price shall be determined as if the option were
12 exercised at such time. In the case of the disposition of
13 such share by the individual, the basis of the share in his
14 hands at the time of such disposition shall be increased by an
15 amount equal to the amount so includible in his gross income.

16 **“SEC. 424. RESTRICTED STOCK OPTIONS.**

17 “(a) IN GENERAL.—Section 421 (a) shall apply with
18 respect to the transfer of a share of stock to an individual
19 pursuant to his exercise after 1949 of a restricted stock
20 option, if—

21 “(1) no disposition of such share is made by him
22 within 2 years from the date of the granting of the
23 option nor within 6 months after the transfer of such
24 share to him, and

1 “(2) at the time he exercises such option—

2 “(A) he is an employee of either the corpora-
3 tion granting such option, a parent or subsidiary
4 corporation of such corporation, or a corporation or
5 a parent or subsidiary corporation of such corpora-
6 tion issuing or assuming a stock option in a trans-
7 action to which section 425 (a) applies, or

8 “(B) he ceased to be an employee of such
9 corporations within the 3-month period preceding
10 the time of exercise.

11 “(b) RESTRICTED STOCK OPTION.—For purposes of
12 this part, the term ‘restricted stock option’ means an option
13 granted after February 26, 1945, and before ~~(74) June 12,~~
14 ~~1963~~ *January 1, 1964* (or, if it meets the requirements of
15 subsection ~~(75)(e)(4)~~ *(c)(3)*, an option granted after ~~(76)~~
16 ~~June 11, 1963~~ *December 31, 1963*), to an individual, for any
17 reason connected with his employment by a corporation, if
18 granted by the employer corporation or its parent or sub-
19 sidiary corporation, to purchase stock of any of such corpo-
20 rations, but only if—

21 “(1) at the time such option is granted—

22 “(A) the option price is at least 85 percent of
23 the fair market value at such time of the stock sub-
24 ject to the option, or

1 “(B) in the case of a variable price option, the
2 option price (computed as if the option had been
3 exercised when granted) is at least 85 percent of
4 the fair market value of the stock at the time such
5 option is granted;

6 “(2) such option by its terms is not transferable by
7 such individual otherwise than by will or the laws of
8 descent and distribution, and is exercisable, during his
9 lifetime, only by him;

10 “(3) such individual, at the time the option is
11 granted, does not own stock possessing more than 10
12 percent of the total combined voting power of all classes
13 of stock of the employer corporation or of its parent
14 or subsidiary corporation. This paragraph shall not apply
15 if at the time such option is ~~(77)granted~~, *granted* the
16 option price is at least 110 percent of the fair market
17 value of the stock subject to the option, and such option
18 either by its terms is not exercisable after the expiration
19 of 5 years from the date such option is granted or is exer-
20 cised within one year after August 16, 1954. For
21 purposes of this paragraph, the provisions of section 425
22 (d) shall apply in determining the stock ownership of an
23 individual; and

24 “(4) such option by its terms is not exercisable

1 after the expiration of 10 years from the date such
2 option is granted, if such option has been granted on or
3 after June 22, 1954.

4 “(c) SPECIAL RULES.—

5 “(1) OPTIONS UNDER WHICH OPTION PRICE IS
6 BETWEEN 85 PERCENT AND 95 PERCENT OF VALUE OF
7 STOCK.—If no disposition of a share of stock acquired by
8 an individual on his exercise after 1949 of a restricted
9 stock option is made by him within 2 years from the date
10 of the granting of the option nor within 6 months after
11 the transfer of such share to him, but, at the time the
12 restricted stock option was granted, the option price
13 (computed under subsection (b) (1)) was less than
14 95 percent of the fair market value at such time of such
15 share, then, in the event of any disposition of such share
16 by him, or in the event of his death (whenever occur-
17 ring) while owning such share, there shall be included
18 as compensation (and not as gain upon the sale or ex-
19 change of a capital asset) in his gross income, for the
20 taxable year in which falls the date of such disposition
21 or for the taxable year closing with his death, whichever
22 applies—

23 “(A) in the case of a share of stock acquired
24 under an option qualifying under subsection (b)

1 (1) (A), an amount equal to the amount (if any)
 2 by which the option price is exceeded by the lesser
 3 of—

4 “(i) the fair market value of the share at
 5 the time of such disposition or death; or

6 “(ii) the fair market value of the share
 7 at the time the option was granted; or

8 “(B) in the case of stock acquired under an
 9 option qualifying under subsection (b) (1) (B), an
 10 amount equal to the lesser of—

11 “(i) the excess of the fair market value of
 12 the share at the time of such disposition or
 13 death over the price paid under the option, or

14 “(ii) the excess of the fair market value of
 15 the share at the time the option was granted
 16 over the option price (computed as if the option
 17 had been exercised at such time).

18 In the case of a disposition of such share by the indi-
 19 vidual, the basis of the share in his hands at the time
 20 of such disposition shall be increased by an amount
 21 equal to the amount so includible in his gross income.

22 ~~(78)(2)~~ STOCKHOLDER APPROVAL.—For purposes of
 23 this section, if the grant of an option is subject to ap-
 24 proval by stockholders, the date of grant of the option
 25 shall be determined as if the option had not been subject
 26 to such approval.

1 “~~(79)~~~~(3)~~ (2) VARIABLE PRICE OPTION.—For pur-
 2 poses of subsection (b) (1), the term ‘variable price
 3 option’ means an option under which the purchase price
 4 of the stock is fixed or determinable under a formula in
 5 which the only variable is the fair market value of the
 6 stock at any time during a period of 6 months which in-
 7 cludes the time the option is exercised; except that in the
 8 case of options granted after September 30, 1958, such
 9 term does not include any such option in which such
 10 formula provides for determining such price by reference
 11 to the fair market value of the stock at any time before
 12 the option is exercised if such value may be greater than
 13 the average fair market value of the stock during the
 14 calendar month in which the option is exercised.

15 “~~(80)~~~~(4)~~ (3) CERTAIN OPTIONS GRANTED AFTER
 16 ~~(81)~~~~JUNE 11, 1963~~ *DECEMBER 31, 1963*.—For purposes
 17 of subsection (b), an option granted after ~~(82)~~~~JUNE 11,~~
 18 ~~1963,~~ *December 31, 1963*, meets the requirements of
 19 this paragraph if granted pursuant to—

20 “(A) a binding written contract entered into
 21 before ~~(83)~~~~JUNE 12, 1963,~~ *January 1, 1964*, or

22 “(B) a written plan adopted and approved
 23 before ~~(84)~~~~JUNE 12, 1963,~~ *January 1, 1964*, which
 24 (as of ~~(85)~~~~JUNE 12, 1963,~~ *January 1, 1964*, and
 25 as of the date of the granting of the option) —

1 “(i) met the requirements of paragraphs
2 (4) and (5) of section 423 (b), or

3 “(ii) was being administered in a way
4 which did not discriminate in favor of officers,
5 persons whose principal duties consist of super-
6 vising the work of other employees, or highly
7 compensated employees.

8 **“SEC. 425. DEFINITIONS AND SPECIAL RULES.**

9 “(a) CORPORATE REORGANIZATIONS, LIQUIDATIONS,
10 ETC.—For purposes of this part, the term ‘issuing or assum-
11 ing a stock option in a transaction to which section 425 (a)
12 applies’ means a substitution of a new option for the old
13 option, or an assumption of the old option, by an employer
14 corporation, or a parent or subsidiary of such corporation,
15 by reason of a corporate merger, consolidation, acquisition of
16 property or stock, separation, reorganization, or liquidation.
17 if—

18 “(1) the excess of the aggregate fair market value
19 of the shares subject to the option immediately after the
20 substitution or assumption over the aggregate option
21 price of such shares is not more than the excess of the
22 aggregate fair market value of all shares subject to the
23 option immediately before such substitution or assump-
24 tion over the aggregate option price of such shares, and

25 “(2) the new option or the assumption of the old

1 option does not give the employee additional benefits
2 which he did not have under the old option.

3 For purposes of this subsection, the parent-subsidary rela-
4 tionship shall be determined at the time of any such trans-
5 action under this subsection.

6 “(b) ACQUISITION OF NEW STOCK.—For purposes of
7 this part, if stock is received by an individual in a distribu-
8 tion to which section 305, 354, 355, 356, or 1036 (or so
9 much of section 1031 as relates to section 1036) applies, and
10 such distribution was made with respect to stock transferred
11 to him upon his exercise of the option, such stock shall be
12 considered as having been transferred to him on his exercise
13 of such option. A similar rule shall be applied in the case of a
14 series of such distributions.

15 “(c) DISPOSITION.—

16 “(1) IN GENERAL.—Except as provided in para-
17 graph (2), for purposes of this part, the term ‘disposi-
18 tion’ includes a sale, exchange, gift, or a transfer of legal
19 title, but does not include—

20 “(A) a transfer from a decedent to an estate
21 or a transfer by bequest or inheritance;

22 “(B) an exchange to which section 354, 355,
23 356, or 1036 (or so much of section 1031 as relates
24 to section 1036) applies; or

25 “(C) a mere pledge or hypothecation.

1 “(2) JOINT TENANCY.—The acquisition of a share
2 of stock in the name of the employee and another jointly
3 with the right of survivorship or a subsequent transfer
4 of a share of stock into such joint ownership shall not
5 be deemed a disposition, but a termination of such joint
6 tenancy (except to the extent such employee acquires
7 ownership of such stock) shall be treated as a disposition
8 by him occurring at the time such joint tenancy is
9 terminated.

10 “(d) ATTRIBUTION OF STOCK OWNERSHIP.—For pur-
11 poses of this part, in applying the percentage limitations of
12 sections 422 (b) (7), 423 (b) (3), and 424 (b) (3) —

13 “(1) the individual with respect to whom such
14 limitation is being determined shall be considered as
15 owning the stock owned, directly or indirectly, by or
16 for his brothers and sisters (whether by the whole or
17 half blood), spouse, ancestors, and lineal descendants;
18 and

19 “(2) stock owned, directly or indirectly, by or for
20 a corporation, partnership, estate, or trust, shall be con-
21 sidered as being owned proportionately by or for its
22 shareholders, partners, or beneficiaries.

1 “(e) PARENT CORPORATION.—For purposes of this
2 part, the term ‘parent corporation’ means any corporation
3 (other than the employer corporation) in an unbroken chain
4 of corporations ending with the employer corporation if, at
5 the time of the granting of the option, each of the corpora-
6 tions other than the employer corporation owns stock pos-
7 sessing 50 percent or more of the total combined voting
8 power of all classes of stock in one of the other corporations
9 in such chain.

10 “(f) SUBSIDIARY CORPORATION.—For purposes of this
11 part, the term ‘subsidiary corporation’ means any corporation
12 (other than the employer corporation) in an unbroken chain
13 of corporations beginning with the employer corporation
14 if, at the time of the granting of the option, each of the cor-
15 porations other than the last corporation in the unbroken
16 chain owns stock possessing 50 percent or more of the total
17 combined voting power of all classes of stock in one of the
18 other corporations in such chain.

19 “(g) SPECIAL RULE FOR APPLYING SUBSECTIONS
20 (e) AND (f).—In applying subsections (e) and (f) for
21 purposes of section 422 (a) (2), 423 (a) (2), and 424 (a)

1 (2), there shall be substituted for the term ‘employer cor-
 2 poration’ wherever it appears in subsections (e) and (f) the
 3 term ‘grantor corporation’, or the term ‘corporation issuing
 4 or assuming a stock option in a transaction to which section
 5 425 (a) applies’, as the case may be.

6 “(h) MODIFICATION, EXTENSION, OR RENEWAL OF
 7 OPTION.—

8 “(1) IN GENERAL.—For purposes of this part, if
 9 the terms of any option to purchase stock are modified,
 10 extended, or renewed, such modification, extension, or
 11 renewal shall be considered as the granting of a new
 12 option.

13 “(2) SPECIAL RULES FOR SECTIONS 423 AND 424
 14 OPTIONS.—

15 “(A) In the case of the transfer of stock pur-
 16 suant to the exercise of an option to which section
 17 423 or 424 applies and which has been so modified,
 18 extended, or renewed, then, except as provided in
 19 subparagraph (B), the fair market value of such
 20 stock at the time of the granting of such option shall
 21 be considered as whichever of the following is the
 22 highest:

23 “(i) the fair market value of such stock
 24 on the date of the original granting of the
 25 option,

1 “(ii) the fair market value of such stock
2 on the date of the making of such modifica-
3 tion, extension, or renewal, or

4 “(iii) the fair market value of such stock
5 at the time of the making of any intervening
6 modification, extension, or renewal.

7 “(B) Subparagraph (A) shall not apply with
8 respect to a modification, extension, or renewal of
9 a restricted stock option before ~~(86) June 12, 1963~~
10 *January 1, 1964* (or after ~~(87) June 11, 1963,~~
11 *December 31, 1963*, if made pursuant to a binding
12 written contract entered into before ~~(88) June 12,~~
13 ~~1963 January 1, 1964~~), if the aggregate of the
14 monthly average fair market values of the stock sub-
15 ject to the option for the 12 consecutive calendar
16 months before the date of the modification, exten-
17 sion, or renewal, divided by 12, is an amount less
18 than 80 percent of the fair market value of such
19 stock on the date of the original granting of the
20 option or the date of the making of any intervening
21 modification, extension, or renewal, whichever is
22 the highest.

23 “(3) DEFINITION OF MODIFICATION.—The term
24 ‘modification’ means any change in the terms of the
25 option which gives the employee additional benefits

1 under the option, but such term shall not include a
2 change in the terms of the option—

3 “(A) attributable to the issuance or assump-
4 tion of an option under subsection (a); ~~(89)~~~~or~~

5 “(B) to permit the option to qualify under
6 sections 422 (b) (6), 423 (b) (9), and ~~(90)~~~~424~~
7 ~~(b) (2)~~. 424(b) (2); or

8 ~~(91)~~“(C) in the case of an option not immediately
9 exercisable in full, to accelerate the time at which
10 the option may be exercised.

11 If a restricted stock option is exercisable after the expira-
12 tion of 10 years from the date such option is granted, sub-
13 paragraph (B) shall not apply unless the terms of the
14 option are also changed to make it not exercisable after
15 the expiration of such period.

16 ~~(92)~~“(i) STOCKHOLDER APPROVAL.—For purposes of this
17 part, if the grant of an option is subject to approval by
18 stockholders, the date of grant of the option shall be deter-
19 mined as if the option had not been subject to such approval.

20 “~~(93)~~~~(i)~~ (j) CROSS REFERENCES.—

“For provisions requiring the reporting of certain acts with respect to a qualified stock option, options granted under employer stock purchase plans, or a restricted stock option, see section 6039.”

1 (b) ADMINISTRATIVE PROVISIONS.—

2 (1) REPORTING REQUIREMENT FOR CERTAIN
3 OPTIONS.—Subpart A of part III of subchapter A of
4 chapter 61 (relating to information returns) is amended
5 by renumbering section 6039 as 6040, and by inserting
6 after section 6038 the following new section:

7 “SEC. 6039. INFORMATION REQUIRED IN CONNECTION
8 WITH CERTAIN OPTIONS.

9 “(a) REQUIREMENT OF REPORTING.—Every corpora-
10 tion—

11 “(1) which in any calendar year transfers a share
12 of stock to any person pursuant to such person’s exer-
13 cise of a qualified stock option or a restricted stock
14 option, or

15 “(2) which in any calendar year records (or has
16 by its agent recorded) a transfer of the legal title of a
17 share of stock—

18 “(A) acquired by the transferor pursuant to his
19 exercise of an option described in section 423 (c)
20 (relating to special rule where option price is be-
21 tween 85 percent and 100 percent of value of
22 stock), or

1 “(B) acquired by the transferor pursuant to
2 his exercise of a restricted stock option described in
3 section 424 (c) (1) (relating to options under
4 which option price is between 85 percent and 95
5 percent of value of stock),

6 shall, for such calendar year, make a return at such time
7 and in such manner, and setting forth such information, as
8 the Secretary or his delegate may by regulations prescribe.
9 For purposes of the preceding sentence, any option which a
10 corporation treats as a qualified stock option, a restricted
11 stock option, or an option granted under an employee stock
12 purchase plan, shall be deemed to be such an option. A
13 return is required by reason of a transfer described in para-
14 graph (2) of a share only with respect to the first transfer
15 of such share by the person who exercised the option.

16 “(b) STATEMENTS TO BE FURNISHED TO PERSONS
17 WITH RESPECT TO WHOM INFORMATION IS FURNISHED.—
18 Every corporation making a return under subsection
19 (a) shall furnish to each person whose name is set forth
20 in such return a written statement setting forth such informa-
21 tion as the Secretary or his delegate may by regulations
22 prescribe. The written statement required under the preced-
23 ing sentence shall be furnished to the person on or before
24 January 31 of the year following the calendar year for which
25 the return under subsection (a) was made.

1 “(c) IDENTIFICATION OF STOCK.—Any corporation
2 which transfers any share of stock pursuant to the exercise
3 of an option described in subsection (a) (2) shall identify
4 such stock in a manner adequate to carry out the purposes
5 of this section.

6 “(d) CROSS REFERENCES.—

 “For definition of—

 “(1) The term ‘qualified stock option’, see section 422(b).

 “(2) The term ‘employee stock purchase plan’, see section 423(b).

 “(3) The term ‘restricted stock option’, see section 424(b).”

7 (2) PENALTIES FOR FAILURE TO FILE INFORMATION RETURNS.—Section 6652 (a) (relating to failure
8 to file certain information returns) is amended to read
9 as follows:
10 as follows:

11 (94)“(a) RETURNS RELATING TO PAYMENTS OF DIVI-
12 DENDS, ETC., AND CERTAIN TRANSFERS OF STOCK.—In
13 the case of each failure to file a statement of—

14 “(1) the aggregate amount of payments to another
15 person required by section 6042(a)(1) (relating to
16 payments of dividends aggregating \$10 or more); see
17 section 6044(a)(1) (relating to payments of patronage
18 dividends aggregating \$10 or more); or section 6049
19 (a)(1) (relating to payments of interest aggregating
20 \$10 or more); or

1 ~~“(2) the transfer of stock or the transfer of legal~~
 2 ~~title of stock required by section 6039 (relating to~~
 3 ~~information in connection with certain options),~~
 4 ~~on the date prescribed therefor (determined with regard to~~
 5 ~~any extension of time for filing), unless it is shown that such~~
 6 ~~failure is due to reasonable cause and not to willful neglect,~~
 7 ~~there shall be paid (upon notice and demand by the Seere-~~
 8 ~~tary or his delegate and in the same manner as tax), by the~~
 9 ~~person failing to so file the statement, \$10 for each such~~
 10 ~~statement not so filed, but the total amount imposed on the~~
 11 ~~delinquent person for all such failures during any calendar~~
 12 ~~year shall not exceed \$25,000.”~~

13 “(a) *RETURNS RELATING TO PAYMENTS OF DIVI-*
 14 *DENDS, ETC. AND CERTAIN TRANSFERS OF STOCK.—In*
 15 *the case of each failure—*

16 “(1) *to file a statement of the aggregate amount*
 17 *of payments to another person required by section 6042*
 18 *(a)(1) (relating to payments of dividends aggregating*
 19 *\$10 or more), section 6044(a)(1) (relating to pay-*
 20 *ments of patronage dividends aggregating \$10 or more),*
 21 *or section 6049(a)(1) (relating to payments of interest*
 22 *aggregating \$10 or more),*

23 “(2) *to make a return required by section 6039(a)*
 24 *(relating to reporting information in connection with*

certain options) with respect to a transfer of stock or a transfer of legal title to stock, or

“(3) to make a return required by section 6052(a) (relating to reporting payment of wages in the form of group-term life insurance) with respect to group-term life insurance on the life of an employee, on the date prescribed therefor (determined with regard to any extension of time for filing), unless it is shown that such failure is due to reasonable cause and not to willful neglect, there shall be paid (upon notice and demand by the Secretary or his delegate and in the same manner as tax), by the person failing to file a statement referred to in paragraph (1) or failing to make a return referred to in paragraph (2) or (3), \$10 for each such failure, but the total amount imposed on the delinquent person for all such failures during any calendar year shall not exceed \$25,000.”

(3) PENALTIES FOR FAILURE TO FURNISH STATEMENTS TO PERSONS WITH RESPECT TO WHOM RETURNS ARE FILED.—Section 6678 (relating to failure to furnish certain statements) is amended—

(A) by striking out “section 6042 (c),” and inserting in lieu thereof “section 6039 (b), 6042 (c),”; and

(B) by striking out “section 6042 (a) (1),”

1 and inserting in lieu thereof “section 6039 (a),
2 6042 (a) (1),”.

3 (c) TECHNICAL AMENDMENTS.—

4 (1) Section 402 (a) (3) (B) (relating to tax-
5 ability of beneficiary of employees’ trust) is amended
6 by striking out “section 421 (d) (2) and (3)” and in-
7 serting in lieu thereof “subsections (e) and (f) of
8 section 425”.

9 (2) The last sentence of subparagraph (B) of
10 section 691 (c) (2) (relating to allowance of deduction
11 for estate tax in case of items constituting income in
12 respect of a decedent) is amended to read as follows:
13 “Such net value shall be determined with respect to the
14 provisions of section 421 (c) (2), relating to the deduc-
15 tion for estate tax with respect to stock options to which
16 part II of subchapter D applies.”

17 (d) CLERICAL AMENDMENTS.—

18 (1) The table of parts for subchapter D of chapter
19 1 is amended by striking out

 “Part II. Miscellaneous provisions.”

20 and inserting in lieu thereof the following:

 “Part II. Certain stock options.”

1 (2) The table of sections for subpart A of part
 2 III of subchapter A of chapter 61 is amended by
 3 striking out

 “Sec. 6039. Cross references.”

4 and inserting in lieu thereof:

 “Sec. 6039. Information required in connection with certain
 options.

 “Sec. 6040. Cross references.”

5 ~~(95)(e) EFFECTIVE DATE.—~~

6 ~~(1) Except as provided in paragraph (2),~~
 7 the amendments made by this section shall apply to
 8 taxable years ending after June 11, 1963.

9 ~~(2) The amendments made by subsection (b) shall~~
 10 apply to stock transferred pursuant to options exercised
 11 on or after January 1, 1964.

12 ~~(e) EFFECTIVE DATES AND TRANSITION RULES.—~~

13 ~~(1) Except as provided in paragraphs (2) and~~
 14 ~~(3), the amendments made by this section shall apply~~
 15 ~~to taxable years ending after December 31, 1963.~~

16 ~~(2) The amendments made by paragraphs (1) and~~
 17 ~~(3) of subsection (b), and paragraph (2) of section~~
 18 ~~6652(a) of the Internal Revenue Code of 1954 (as~~
 19 ~~amended by paragraph (2) of subsection (b)), shall~~

1 apply to stock transferred pursuant to options exercised
2 on or after January 1, 1964.

3 (3) In the case of an option granted after Decem-
4 ber 31, 1963, and before January 1, 1965—

5 (A) paragraphs (1) and (2) of section 422
6 (b) of the Internal Revenue Code of 1954 (as
7 added by subsection (a)) shall not apply, and

8 (B) paragraph (1) of section 425(h) of such
9 Code (as added by subsection (a)) shall not apply
10 to any change in the terms of such option made
11 before January 1, 1965, to permit such option to
12 qualify under paragraphs (3), (4), and (5) of
13 such section 422(b).

14 **(96)SEC. 223. INSTALLMENT SALES BY DEALERS IN PER-**
15 **SONAL PROPERTY.**

16 (a) *INSTALLMENT PLANS.*—Section 453(a) (relating
17 to reporting of income by dealers in personal property from
18 sales on the installment plan) is amended to read as follows:

19 “(a) *DEALERS IN PERSONAL PROPERTY.*—

20 “(1) *GENERAL RULE.*—Under regulations pre-
21 scribed by the Secretary or his delegate, a person who
22 regularly sells or otherwise disposes of personal property

1 on the installment plan may return as income therefrom
2 in any taxable year that proportion of the installment
3 payments actually received in that year which the gross
4 profit, realized or to be realized when payment is com-
5 pleted, bears to the total contract price.

6 “(2) *INSTALLMENT PLAN*.—For purposes of para-
7 graph (1), the term ‘installment plan’ includes any plan
8 which provides for the payment by the purchaser for
9 the personal property sold to him in a series of periodic
10 installments of an agreed part or installment of the debt
11 due the seller.

12 “(3) *TOTAL CONTRACT PRICE*.—For purposes of
13 paragraph (1), the term ‘total contract price’ includes
14 all charges relative to the sale of the personal property,
15 including the time price differential which represents the
16 amount paid or payable for the privilege of purchasing
17 the personal property to be paid for by the purchaser in
18 installments over a period of time.”

19 (b) *EFFECTIVE DATE*.—The amendment made by sub-
20 section (a) shall apply to taxable years beginning after
21 December 31, 1963.

1 **(97)SEC. 224. TIMING OF DEDUCTIONS AND CREDITS IN**
 2 **CERTAIN CASES WHERE ASSERTED LIA-**
 3 **BILITIES ARE CONTESTED.**

4 *(a) TAXABLE YEAR OF DEDUCTION OR CREDIT.—*

5 *(1) Section 461 (relating to general rule for taxable*
 6 *year of deduction) is amended by adding at the end*
 7 *thereof the following new subsection:*

8 *“(f) CONTESTED LIABILITIES.—If—*

9 *“(1) the taxpayer contests an asserted liability,*

10 *“(2) the taxpayer transfers money or other property*
 11 *to provide for the satisfaction of the asserted liability,*

12 *“(3) the contest with respect to the asserted liability*
 13 *exists after the time of the transfer, and*

14 *“(4) but for the fact that the asserted liability is con-*
 15 *tested, a deduction or credit would be allowed for the tax-*
 16 *able year of the transfer (or for an earlier taxable year),*
 17 *then the deduction or credit shall be allowed for the taxable*
 18 *year of the transfer.”*

19 *(2) Section 43 of the Internal Revenue Code of*
 20 *1939 (relating to period for which deductions and*
 21 *credits taken) is amended by adding at the end thereof*
 22 *the following new sentence: “If—*

23 *“(1) the taxpayer contests an asserted liability,*

24 *“(2) the taxpayer transfers money or other prop-*

erty to provide for the satisfaction of the asserted liability,

“(3) the contest with respect to the asserted liability exists after the time of the transfer, and

“(4) but for the fact that the asserted liability is contested, a deduction or credit would be allowed for the taxable year of the transfer (or for an earlier taxable year),

then the deduction or credit shall be allowed for the taxable year of the transfer.”

(b) *EFFECTIVE DATES*.—Except as provided in subsections (c) and (d)—

(1) the amendment made by subsection (a)(1) shall apply to taxable years beginning after December 31, 1953, and ending after August 16, 1954, and

(2) the amendment made by subsection (a)(2) shall apply to taxable years to which the Internal Revenue Code of 1939 applies.

(c) *ELECTION AS TO TRANSFERS IN TAXABLE YEARS BEGINNING BEFORE JANUARY 1, 1964*.—

(1) The amendments made by subsection (a) shall not apply to any transfer of money or other property described in subsection (a) made in a taxable year beginning before January 1, 1964, if the taxpayer elects,

1 *in the manner provided by regulations prescribed by the*
2 *Secretary of the Treasury or his delegate, to have this*
3 *paragraph apply. Such an election—*

4 *(A) must be made within one year after the*
5 *date of the enactment of this Act,*

6 *(B) may not be revoked after the expiration of*
7 *such one-year period, and*

8 *(C) shall apply to all transfers described in*
9 *the first sentence of this paragraph (other than*
10 *transfers described in paragraph (2)).*

11 *In the case of any transfer to which this paragraph*
12 *applies, the deduction or credit shall be allowed only for*
13 *the taxable year in which the contest with respect to such*
14 *transfer is settled.*

15 *(2) Paragraph (1) shall not apply to any transfer*
16 *if the assessment of any deficiency which would result*
17 *from the application of the election in respect of such*
18 *transfer is, on the date of the election under paragraph*
19 *(1), prevented by the operation of any law or rule of*
20 *law.*

21 *(3) If the taxpayer makes an election under para-*
22 *graph (1), and if, on the date of such election, the*
23 *assessment of any deficiency which results from the appli-*

1 cation of the election in respect of any transfer is not
 2 prevented by the operation of any law or rule of law,
 3 the period within which assessment of such deficiency may
 4 be made shall not expire earlier than 2 years after the
 5 date of the enactment of this Act.

6 (d) CERTAIN OTHER TRANSFERS IN TAXABLE
 7 YEARS BEGINNING BEFORE JANUARY 1, 1964.—The
 8 amendments made by subsection (a) shall not apply to any
 9 transfer of money or other property described in subsection
 10 (a) made in a taxable year beginning before January 1,
 11 1964, if—

12 (1) no deduction or credit has been allowed in
 13 respect of such transfer for any taxable year before the
 14 taxable year in which the contest with respect to such
 15 transfer is settled, and

16 (2) refund or credit of any overpayment which
 17 would result from the application of such amendments
 18 to such transfer is prevented by the operation of any
 19 law or rule of law.

20 In the case of any transfer to which this subsection applies,
 21 the deduction or credit shall be allowed for the taxable year
 22 in which the contest with respect to such transfer is settled.

1 SEC. (98)~~245~~ 225. INTEREST ON CERTAIN DEFERRED
2 PAYMENTS.

3 (a) IN GENERAL.—Part III of subchapter E of chapter
4 1 (relating to accounting periods and methods of account-
5 ing) is amended by adding at the end thereof the following
6 new section:

7 “SEC. 483. INTEREST ON CERTAIN DEFERRED PAYMENTS.

8 “(a) AMOUNT CONSTITUTING INTEREST.—For pur-
9 poses of this title, in the case of any contract for the sale
10 or exchange of property there shall be treated as interest
11 that part of a payment to which this section applies which
12 bears the same ratio to the amount of such payment as the
13 total unstated interest under such contract bears to the total
14 of the payments to which this section applies which are due
15 under such contract.

16 “(b) TOTAL UNSTATED INTEREST.—For purposes of
17 this section, the term ‘total unstated interest’ means, with
18 respect to a contract for the sale or exchange of property,
19 an amount equal to the excess of—

20 “(1) the sum of the payments to which this sec-
21 tion applies which are due under the contract, over

22 “(2) the sum of the present values of such pay-
23 ments and the present values of any interest payments
24 due under the contract.

25 For purposes of paragraph (2), the present value of a pay-

1 ment shall be determined, as of the date of the sale or ex-
 2 change, by discounting such payment at the rate, and in the
 3 manner, provided in regulations prescribed by the Secretary
 4 or his delegate. Such regulations shall provide for discount-
 5 ing on the basis of 6-month brackets and shall provide that
 6 the present value of any interest payment due not more than
 7 6 months after the date of the sale or exchange is an amount
 8 equal to 100 percent of such payment.

9 “(c) PAYMENTS TO WHICH SECTION APPLIES.—

10 “(1) IN GENERAL.—Except as provided in sub-
 11 section (f), this section shall apply to any payment on
 12 account of the sale or exchange of property which con-
 13 stitutes part or all of the sales price and which is due
 14 more than 6 months after the date of such sale or ex-
 15 change under a contract—

16 “(A) under which some or all of the payments
 17 are due more than one year after the date of such
 18 sale or exchange, and

19 “(B) under which, using a rate provided by
 20 regulations prescribed by the Secretary or his dele-
 21 gate for purposes of this subparagraph, there is total
 22 unstated interest.

23 Any rate prescribed for determining whether there is
 24 total unstated interest for purposes of subparagraph (B)

1 shall be at least one percentage point lower than the
2 rate prescribed for purposes of subsection (b) (2).

3 “(2) TREATMENT OF EVIDENCE OF INDEBTED-
4 NESS.—For purposes of this section, an evidence of in-
5 debtedness of the purchaser given in consideration for
6 the sale or exchange of property shall not be considered
7 a payment, and any payment due under such evidence
8 of indebtedness shall be treated as due under the contract
9 for the sale or exchange.

10 “(d) PAYMENTS THAT ARE INDEFINITE AS TO TIME,
11 LIABILITY, OR AMOUNT.—In the case of a contract for the
12 sale or exchange of property under which the liability for,
13 or the amount or due date of, any portion of a payment can-
14 not be determined at the time of the sale or exchange, this
15 section shall be separately applied to such portion as if it
16 (and any amount of interest attributable to such portion)
17 were the only payments due under the contract; and such
18 determinations of liability, amount, and due date shall be
19 made at the time payment of such portion is made.

20 “(e) CHANGE IN TERMS OF CONTRACT.—If the lia-
21 bility for, or the amount or due date of, any payment (includ-
22 ing interest) under a contract for the sale or exchange of
23 property is changed, the ‘total unstated interest’ under the
24 contract shall be recomputed and allocated (with adjustment

1 for prior interest (including unstated interest) payments)
2 under regulations prescribed by the Secretary or his delegate.

3 “(f) EXCEPTIONS AND LIMITATIONS.—

4 “(1) SALES PRICE OF \$3,000 OR LESS.—This sec-
5 tion shall not apply to any payment on account of the
6 sale or exchange of property if it can be determined at
7 the time of such sale or exchange that the sales price
8 cannot exceed \$3,000.

9 “(2) CARRYING CHARGES.—In the case of the pur-
10 chaser, the tax treatment of amounts paid on account
11 of the sale or exchange of property shall be made with-
12 out regard to this section if any such amounts are treated
13 under section 163 (b) as if they included interest.

14 “(3) TREATMENT OF SELLER.—In the case of the
15 seller, the tax treatment of any amounts received on
16 account of the sale or exchange of property shall be
17 made without regard to this section if no part of any
18 gain on such sale or exchange would be considered as
19 gain from the sale or exchange of a capital asset or prop-
20 erty described in section 1231.

21 “(4) SALES OR EXCHANGES OF PATENTS.—This
22 section shall not apply to any payments made pursuant
23 to a transfer described in section 1235 (a) (relating to
24 sale or exchange of patents).

1 “(5) ANNUITIES.—This section shall not apply to
2 any amount the liability for which depends in whole or
3 in part on the life expectancy of one or more individ-
4 uals and which constitutes an amount received as an
5 annuity to which section 72 applies.”

6 (b) CLERICAL AMENDMENT.—The table of sections for
7 such part is amended by adding at the end thereof the fol-
8 lowing new item:

 “Sec. 483. Interest on certain deferred payments.”

9 ~~(99)(c) CERTAIN CARRYING CHARGES.—~~The first sen-
10 tence of section ~~163(b)(1)~~ (relating to installment pur-
11 chases where interest charge is not separately stated) is
12 amended by striking out “personal property is purchased”
13 and inserting in lieu thereof “personal property or services
14 are purchased”.

15 ~~(100)(d) EFFECTIVE DATES.—~~The amendments made
16 by subsections ~~(a)~~ and ~~(b)~~ shall apply to payments made
17 after ~~December 31, 1963~~, on account of sales or exchanges of
18 property occurring after June 30, 1963. The amendment
19 made by subsection ~~(c)~~ shall apply to payments made dur-
20 ing taxable years beginning after ~~December 31, 1963~~.

21 (c) *EFFECTIVE DATE.*—*The amendments made by sub-*
22 *sections (a) and (b) shall apply to payments made after De-*
23 *cember 31, 1963, on account of sales or exchanges of property*
24 *occurring after June 30, 1963, other than any sale or ex-*

1 *change made pursuant to a binding written contract (includ-*
 2 *ing an irrevocable written option) entered into before July 1,*
 3 *1963.*

4 SEC. (101)~~246~~ 226. PERSONAL HOLDING COMPANIES.

5 (a) PERSONAL HOLDING COMPANY TAX RATE.—

6 Section 541 (relating to imposition of personal holding
 7 company tax) is amended by striking out “tax equal to”
 8 and all that follows and inserting in lieu thereof: “tax equal
 9 to 70 percent of the undistributed personal holding company
 10 income.”

11 (b) DEFINITION OF PERSONAL HOLDING COMPANY.—

12 Paragraph (1) of section 542 (a) (relating to the gross
 13 income requirement for personal holding company purposes)
 14 is amended to read as follows:

15 “(1) ADJUSTED ORDINARY GROSS INCOME RE-
 16 QUIREMENT.—At least 60 percent of its adjusted
 17 ordinary gross income (as defined in section 543 (b)
 18 (2)) for the taxable year is personal holding company
 19 income (as defined in section 543 (a)), and”.

20 (c) EXCLUDED CORPORATIONS.—

21 (1) DOMESTIC BUILDING AND LOAN ASSOCIA-
 22 TIONS.—Paragraph (2) of section 542 (c) (relating to
 23 corporations excepted from the definition of personal
 24 holding company) is amended to read as follows:

25 “(2) a bank as defined in section 581, or a do-

1 mestic building and loan association within the meaning
 2 of section 7701 (a) (19) without regard to subpara-
 3 graphs (D) and (E) thereof;”.

4 (2) LENDING AND FINANCE COMPANIES.—Sec-
 5 tion 542 (c) is amended by striking out paragraphs (6),
 6 (7), (8), and (9), by renumbering paragraphs (10)
 7 and (11) as paragraphs (7) and (8), and by insert-
 8 ing after paragraph (5) the following new paragraph:

9 “(6) a lending or finance company if—

10 “(A) 60 percent or more of its ordinary gross
 11 income (as defined in section 543 (b) (1)) is de-
 12 rived directly from the active and regular conduct
 13 of a lending or finance business;

14 “(B) the personal holding company income for
 15 the taxable year (computed without regard to in-
 16 come described in subsection (d) (3) and in-
 17 come derived directly from the active and regular
 18 conduct of a lending or finance business, and com-
 19 puted by including as personal holding company
 20 income the entire amount of the gross income from
 21 rents, royalties, produced film rents, and compen-
 22 sation for use of corporate property by sharehold-
 23 ers) ~~(102)~~, plus the interest described in section 543
 24 ~~(b) (2) (C)~~, is not more than 20 percent of the
 25 ordinary gross income;

“(C) the sum of the deductions which are directly allocable to the active and regular conduct of its lending or finance business equals or exceeds the sum of—

“(i) 15 percent of so much of the ordinary gross income derived therefrom as does not exceed \$500,000, plus

“(ii) 5 percent of so much of the ordinary gross income derived therefrom as exceeds \$500,000 but not \$1,000,000; and

“(D) the loans to a person who is a shareholder in such company during the taxable year by or for whom 10 percent or more in value of its outstanding stock is owned directly or indirectly (including, in the case of an individual, stock owned by members of his family as defined in section 544 (a) (2)), outstanding at any time during such year do not exceed \$5,000 in principal amount;”.

(3) SPECIAL RULES FOR SECTION 542(C)(6).—Section 542 is amended by adding at the end thereof the following new subsection:

“(d) SPECIAL RULES FOR APPLYING SUBSECTION (c) (6).—

“(1) LENDING OR FINANCE BUSINESS DEFINED.—

“(A) IN GENERAL.—Except as provided in

subparagraph (B), for purposes of subsection (c) (6), the term 'lending or finance business' means a business of—

“(i) making loans, ~~(103)~~or

“(ii) purchasing or discounting accounts receivable, notes, or installment ~~(104)~~obligations; obligations, or

~~(105)~~“(iii) rendering services or making facilities available to another corporation which is engaged in the lending or finance business (within the meaning of this subparagraph), but only if such other corporation and the corporation rendering services or making facilities available are members of the same affiliated group (as defined in section 1504).

“(B) EXCEPTIONS.—For purposes of subparagraph (A), the term 'lending or finance business' does not include the business of—

“(i) making loans, or purchasing or discounting accounts receivable, notes, or installment obligations, if (at the time of the loan, purchase, or discount) the remaining maturity exceeds 60 months, ~~(106)~~or unless the loans, notes, or installment obligations are evidenced or secured by contracts of conditional sale, chat-

1 *tel mortgages, or lease agreements, arising out*
 2 *of the sale of goods or services in the course of*
 3 *transferor's or borrower's trade or*

4 “(ii) making loans evidenced by, or pur-
 5 chasing, certificates of indebtedness issued in a
 6 series, under a trust indenture, and in registered
 7 form or with interest coupons attached.

8 For purposes of clause (i), the remaining maturity
 9 shall be treated as including any period for which
 10 there may be a renewal or extension under the terms
 11 of an option exercisable by the borrower.

12 “(2) BUSINESS DEDUCTIONS.—For purposes of
 13 subsection (c) (6) (C), the deductions which may be
 14 taken into account shall include only—

15 “(A) deductions which are allowable only by
 16 reason of section 162 or section 404, except there
 17 shall not be included any such deduction in respect
 18 of compensation for personal services rendered by
 19 shareholders (including members of the share-
 20 holder's family as described in section 544 (a) (2)),
 21 and

22 “(B) deductions allowable under section 167,
 23 and deductions allowable under section 164 for
 24 real property taxes, but in either case only to the
 25 extent that the property with respect to which such

1 deductions are allowable is used directly in the
2 active and regular conduct of the lending or finance
3 business.

4 ~~(107)“(3) INCOME RECEIVED FROM CERTAIN DOMES-~~
5 ~~THE SUBSIDIARIES.—~~For purposes of subsection ~~(c)(6)~~
6 ~~(B)~~, in the case of a lending company which is auther-
7 ized to engage in and is actively and regularly engaged
8 in the small loan business ~~(consumer finance business)~~
9 under one or more State statutes providing for the direct
10 regulation of such business, and which meets the require-
11 ments of subsection ~~(c)(6)(A)~~, there shall not be
12 treated as personal holding company income the law-
13 ful income received from domestic subsidiary corpora-
14 tions ~~(of which stock possessing at least 80 percent of~~
15 ~~the voting power of all classes of stock and of which at~~
16 ~~least 80 percent of each class of nonvoting stock is~~
17 ~~owned directly by such lending company)~~ which are
18 themselves excepted under subsection ~~(c)(6).~~”

19 “(3) INCOME RECEIVED FROM CERTAIN AFFIL-
20 LATED CORPORATIONS.—For purposes of subsection (c)
21 (6)(B), in the case of a lending or finance company
22 which meets the requirements of subsection (c)(6)(A),
23 there shall not be treated as personal holding company in-
24 come the lawful income received from a corporation which
25 meets the requirements of subsection (c)(6) and which

1 is a member of the same affiliated group (as defined in
2 section 1504) of which such company is a member.

3 (d) PERSONAL HOLDING COMPANY INCOME.—Subsec-
4 tions (a) and (b) of section 543 (relating to personal
5 holding company income) are amended to read as follows:

6 “(a) GENERAL RULE.—For purposes of this subtitle,
7 the term ‘personal holding company income’ means the
8 portion of the adjusted ordinary gross income which consists
9 of:

10 “(1) DIVIDENDS, ETC.—Dividends, interest, royal-
11 ties (other than mineral, oil, or gas royalties or copy-
12 right royalties), and annuities. This paragraph shall
13 not apply to—

14 “(A) interest constituting rent (as defined in
15 subsection (b) (3)),

16 “(B) interest on amounts set aside in a re-
17 serve fund under section 511 or 607 of the Mer-
18 chant Marine Act, 1936, and

19 “(C) a dividend distribution of divested stock
20 (as defined in subsection (e) of section 1111), but
21 only if the stock with respect to which the distribu-
22 tion is made was owned by the distributee on Sep-
23 tember 6, 1961, or was owned by the distributee
24 for at least 2 years before the date on which the

1 antitrust order (as defined in subsection (d) of sec-
 2 tion 1111) was entered.

3 “(2) RENTS.—The adjusted income from rents;
 4 except that such adjusted income shall not be included
 5 if—

6 “(A) such adjusted income constitutes 50 per-
 7 cent or more of the adjusted ordinary gross income,
 8 and

9 ~~(108)“(B) the personal holding company income~~
 10 ~~for the taxable year (computed without regard to~~
 11 ~~this paragraph and paragraph (6), and computed by~~
 12 ~~including as personal holding company income~~
 13 ~~copyright royalties and the adjusted income from~~
 14 ~~mineral, oil, and gas royalties) is not more than~~
 15 ~~10 percent of the ordinary gross income.~~

16 “(B) the sum of—

17 “(i) the dividends paid during the taxable
 18 year (determined under section 562),

19 “(ii) the dividends considered as paid on
 20 the last day of the taxable year under section
 21 563(c) (as limited by the second sentence of
 22 section 563(b)), and

23 “(iii) the consent dividends for the taxable
 24 year (determined under section 565),

25 equals or exceeds the amount, if any, by which the

1 *personal holding company income for the taxable*
2 *year (computed without regard to this paragraph*
3 *and paragraph (6), and computed by including as*
4 *personal holding company income copyright roy-*
5 *alties and the adjusted income from mineral, oil,*
6 *and gas royalties) exceeds 10 percent of the ordi-*
7 *nary gross income.*

8 “(3) MINERAL, OIL, AND GAS ROYALTIES.—The
9 adjusted income from mineral, oil, and gas royalties;
10 except that such adjusted income shall not be included
11 if—

12 “(A) such adjusted income constitutes 50 per-
13 cent or more of the adjusted ordinary gross income,

14 “(B) the personal holding company income for
15 the taxable year (computed without regard to this
16 paragraph, and computed by including as personal
17 holding company income copyright royalties and
18 the adjusted income from rents) is not more than
19 10 percent of the ordinary gross income, and

20 “(C) the sum of the deductions which are al-
21 lowable under section 162 (relating to trade or busi-
22 ness expenses) other than—

23 “(i) deductions for compensation for per-
24 sonal services rendered by the shareholders.
25 and

1 “(ii) deductions which are specifically al-
2 lowable under sections other than section 162,
3 equals or exceeds 15 percent of the adjusted ordi-
4 nary gross income.

5 “(4) COPYRIGHT ROYALTIES.—Copyright royalties;
6 except that copyright royalties shall not be included if—

7 “(A) such royalties (exclusive of royalties
8 received for the use of, or right to use, copyrights
9 or interests in copyrights on works created in whole,
10 or in part, by any shareholder) constitute 50 per-
11 cent or more of the ordinary gross income,

12 “(B) the personal holding company income
13 for the taxable year computed—

14 “(i) without regard to copyright royalties,
15 other than royalties received for the use of, or
16 right to use, copyrights or interests in copyrights
17 in works created in whole, or in part, by any
18 shareholder owning more than 10 percent of
19 the total outstanding capital stock of the cor-
20 poration,

21 “(ii) without regard to dividends from any
22 corporation in which the taxpayer owns at least
23 50 percent of all classes of stock entitled to
24 vote and at least 50 percent of the total value
25 of all classes of stock and which corporation

1 meets the requirements of this subparagraph
2 and subparagraphs (A) and (C), and

3 “(iii) by including as personal holding
4 company income the adjusted income from
5 rents and the adjusted income from mineral,
6 oil, and gas royalties,

7 is not more than 10 percent of the ordinary gross
8 income, and

9 “(C) the sum of the deductions which are
10 properly allocable to such royalties and which are
11 allowable under section 162, other than—

12 “(i) deductions for compensation for per-
13 sonal services rendered by the shareholders,

14 “(ii) deductions for royalties paid or ac-
15 crued, and

16 “(iii) deductions which are specifically
17 allowable under sections other than section 162,
18 equals or exceeds 25 percent of the amount by
19 which the ordinary gross income exceeds the sum
20 of the royalties paid or accrued and the amounts
21 allowable as deductions under section 167 (relating
22 to depreciation) with respect to copyright royalties.

23 For purposes of this subsection, the term ‘copyright
24 royalties’ means compensation, however designated, for

1 the use of, or the right to use, copyrights in works pro-
2 tected by copyright issued under title 17 of the United
3 States Code (other than by reason of section 2 or 6
4 thereof) and to which copyright protection is also
5 extended by the laws of any country other than the
6 United States of America by virtue of any international
7 treaty, convention, or agreement, or interests in any
8 such copyrighted works, and includes payments from
9 any person for performing rights in any such copy-
10 righted work and payments (other than produced film
11 rents as defined in paragraph (5) (B)) received for
12 the use of, or right to use, films. For purposes of this
13 paragraph, the term 'shareholder' shall include any per-
14 son who owns stock within the meaning of section 544.

15 “(5) PRODUCED FILM RENTS.—

16 “(A) Produced film rents; except that such
17 rents shall not be included if such rents constitute
18 50 percent or more of the ordinary gross income.

19 “(B) For purposes of this section, the term
20 ‘produced film rents’ means payments received with
21 respect to an interest in a film for the use of, or
22 right to use, such film, but only to the extent that
23 such interest was acquired before substantial com-
24 pletion of production of such film.

25 “(6) USE OF CORPORATION PROPERTY BY SHARE-

1 HOLDER.—Amounts received as compensation (however
2 designated and from whomsoever received) for the use
3 of, or right to use, property of the corporation in any
4 case where, at any time during the taxable year, 25
5 percent or more in value of the outstanding stock of the
6 corporation is owned, directly or indirectly, by or for an
7 individual entitled to the use of the property; whether
8 such right is obtained directly from the corporation or
9 by means of a sublease or other arrangement. This
10 paragraph shall apply only to a corporation which has
11 personal holding company income for the taxable year
12 (computed without regard to this paragraph and para-
13 graph (2)), and computed by including as personal
14 holding company income copyright royalties and the
15 adjusted income from mineral, oil, and gas royalties)
16 in excess of 10 percent of its ordinary gross income.

17 “(7) PERSONAL SERVICE CONTRACTS.—

18 “(A) Amounts received under a contract un-
19 der which the corporation is to furnish personal
20 services; if some person other than the corporation
21 has the right to designate (by name or by descrip-
22 tion) the individual who is to perform the services,
23 or if the individual who is to perform the services
24 is designated (by name or by description) in the
25 contract; and

1 “(B) amounts received from the sale or other
2 disposition of such a contract.

3 This paragraph shall apply with respect to amounts
4 received for services under a particular contract only if
5 at some time during the taxable year 25 percent or more
6 in value of the outstanding stock of the corporation is
7 owned, directly or indirectly, by or for the individual who
8 has performed, is to perform, or may be designated (by
9 name or by description) as the one to perform, such
10 services.

11 “(8) ESTATES AND TRUSTS.—Amounts includible
12 in computing the taxable income of the corporation un-
13 der part I of subchapter J (sec. 641 and following,
14 relating to estates, trusts, and beneficiaries).

15 “(b) DEFINITIONS.—For purposes of this part—

16 “(1) ORDINARY GROSS INCOME.—The term ‘ordi-
17 nary gross income’ means the gross income determined
18 by excluding—

19 “(A) all gains from the sale or other disposi-
20 tion of capital assets, and

21 “(B) all gains (other than those referred to in
22 subparagraph (A)) from the sale or other disposi-
23 tion of property described in section 1231 (b).

24 “(2) ADJUSTED ORDINARY GROSS INCOME.—The

1 term 'adjusted ordinary gross income' means the ordinary
2 gross income adjusted as follows:

3 “(A) RENTS.—From the gross income from
4 rents (as defined in the second sentence of para-
5 graph (3) of this subsection) subtract the amount
6 allowable as deductions for—

7 “(i) exhaustion, wear and tear, obsoles-
8 cence, and ~~(109) amortization~~, *amortization of*
9 *property other than tangible personal property*
10 *which is not customarily retained by any one*
11 *lessee for more than three years,*

12 “(ii) property taxes,

13 “(iii) interest, and

14 “(iv) rent,

15 to the extent allocable, under regulations prescribed
16 by the Secretary or his delegate, to such gross in-
17 come from rents. The amount subtracted under
18 this subparagraph shall not exceed such gross in-
19 come from rents.

20 “(B) MINERAL ROYALTIES, ETC.—From the
21 gross income from mineral, oil, and gas royalties
22 described in ~~(110) subsection (a)(3)~~ *paragraph*
23 *(4)*, and from the gross income from working inter-

1 ests in an oil or gas well, subtract the amount allow-
2 able as deductions for—

3 “(i) exhaustion, wear and tear, obsoles-
4 cence, amortization, and depletion,

5 “(ii) property and severance taxes,

6 “(iii) interest, and

7 “(iv) rent,

8 to the extent allocable, under regulations prescribed
9 by the Secretary or his delegate, to such gross in-
10 come from royalties or such gross income from work-
11 ing interests in oil or gas wells. The amount sub-
12 tracted under this subparagraph with respect to
13 royalties shall not exceed the gross income from such
14 royalties, and the amount subtracted under this
15 subparagraph with respect to working interests
16 shall not exceed the gross income from such working
17 interests.

18 “(C) INTEREST.—There shall be excluded—

19 “(i) interest received on a direct obliga-
20 tion of the United States held for sale to
21 customers in the ordinary course of trade or
22 business by a regular dealer who is making a
23 primary market in such obligations, and

24 “(ii) interest on a condemnation award, a
25 judgment, and a tax refund.

“(3) ADJUSTED INCOME FROM RENTS.—The term ‘adjusted income from rents’ means the gross income from rents, reduced by the amount subtracted under paragraph (2) (A) of this subsection. For purposes of the preceding sentence, the term ‘rents’ means compensation, however designated, for the use of, or right to use, property, and the interest on debts owed to the corporation, to the extent such debts represent the price for which real property held primarily for sale to customers in the ordinary course of its trade or business was sold or exchanged by the corporation; but does not include amounts constituting personal holding company income under subsection (a) (6), nor copyright royalties (as defined in subsection (a) (4)), nor produced film rents (as defined in subsection (a) (5) (B)).

“(4) ADJUSTED INCOME FROM MINERAL, OIL, AND GAS ROYALTIES.—The term ‘adjusted income from mineral, oil, and gas royalties’ means the gross income from ~~(111) such royalties~~ *mineral, oil, and gas royalties (including production payments and overriding royalties)*, reduced by the amount subtracted under paragraph (2) (B) of this subsection in respect to such royalties.”

(e) FOREIGN PERSONAL HOLDING COMPANY INCOME AND STOCK OWNERSHIP.—Section 553 (relating to

1 foreign personal holding company income) and section 554
 2 (relating to stock ownership) are amended to read as
 3 follows:

4 **“SEC. 553. FOREIGN PERSONAL HOLDING COMPANY IN-**
 5 **COME.**

6 “(a) **FOREIGN PERSONAL HOLDING COMPANY IN-**
 7 **COME.**—For purposes of this subtitle, the term ‘foreign per-
 8 sonal holding company income’ means that portion of the
 9 gross income, determined for purposes of section 552, which
 10 consists of:

11 “(1) **DIVIDENDS, ETC.**—Dividends, interest, royal-
 12 ties, and annuities. This paragraph shall not apply to
 13 a dividend distribution of divested stock (as defined in
 14 subsection (e) of section 1111) but only if the stock
 15 with respect to which the distribution is made was
 16 owned by the distributee on September 6, 1961, or was
 17 owned by the distributee for at least 2 years before
 18 the date on which the antitrust order (as defined in
 19 subsection (d) of section 1111) was entered.

20 “(2) **STOCK AND SECURITIES TRANSACTIONS.**—
 21 Except in the case of regular dealers in stock or secu-
 22 rities, gains from the sale or exchange of stock or
 23 securities.

24 “(3) **COMMODITIES TRANSACTIONS.**—Gains from
 25 futures transactions in any commodity on or subject to

1 the rules of a board of trade or commodity exchange.
2 This paragraph shall not apply to gains by a producer,
3 processor, merchant, or handler of the commodity which
4 arise out of bona fide hedging transactions reasonably
5 necessary to the conduct of its business in the manner in
6 which such business is customarily and usually con-
7 ducted by others.

8 “(4) ESTATES AND TRUSTS.—Amounts includible
9 in computing the taxable income of the corporation
10 under part I of subchapter J (sec. 641 and following,
11 relating to estates, trusts, and beneficiaries) ; and gains
12 from the sale or other disposition of any interest in an
13 estate or trust.

14 “(5) PERSONAL SERVICE CONTRACTS.—

15 “(A) Amounts received under a contract
16 under which the corporation is to furnish personal
17 services; if some person other than the corporation
18 has the right to designate (by name or by descrip-
19 tion) the individual who is to perform the services,
20 or if the individual who is to perform the services
21 is designated (by name or by description) in the
22 contract; and

23 “(B) amounts received from the sale or other
24 disposition of such a contract.

25 This paragraph shall apply with respect to amounts

1 received for services under a particular contract only if
2 at some time during the taxable year 25 percent or more
3 in value of the outstanding stock of the corporation is
4 owned, directly or indirectly, by or for the individual
5 who has performed, is to perform, or may be designated
6 (by name or by description) as the one to perform, such
7 services.

8 “(6) USE OF CORPORATION PROPERTY BY SHARE-
9 HOLDER.—Amounts received as compensation (however
10 designated and from whomsoever received) for the use
11 of, or right to use, property of the corporation in any case
12 where, at any time during the taxable year, 25 percent
13 or more in value of the outstanding stock of the corpora-
14 tion is owned, directly or indirectly, by or for an indi-
15 vidual entitled to the use of the property; whether such
16 right is obtained directly from the corporation or by
17 means of a sublease or other arrangement. This para-
18 graph shall apply only to a corporation which has foreign
19 personal holding company income for the taxable year,
20 computed without regard to this paragraph and para-
21 graph (7), in excess of 10 percent of its gross income.

22 “(7) RENTS.—Rents, unless constituting 50 per-
23 cent or more of the gross income. For purposes of this
24 paragraph, the term ‘rents’ means compensation, how-
25 ever designated, for the use of, or right to use, property;

1 but does not include amounts constituting foreign per-
 2 sonal holding company income under paragraph (6).

3 “(b) **LIMITATION ON GROSS INCOME IN CERTAIN**
 4 **TRANSACTIONS.**—For purposes of this part—

5 “(1) gross income and foreign personal holding
 6 company income determined with respect to transactions
 7 described in subsection (a) (2) (relating to gains from
 8 stock and security transactions) shall include only the
 9 excess of gains over losses from such transactions, and

10 “(2) gross income and foreign personal holding
 11 company income determined with respect to transactions
 12 described in subsection (a) (3) (relating to gains from
 13 commodity transactions) shall include only the excess of
 14 gains over losses from such transactions.

15 **“SEC. 554. STOCK OWNERSHIP.**

16 “(a) **CONSTRUCTIVE OWNERSHIP.**—For purposes of de-
 17 termining whether a corporation is a foreign personal holding
 18 company, insofar as such determination is based on stock
 19 ownership under section 552 (a) (2), section 553 (a) (5),
 20 or section 553 (a) (6) —

21 “(1) **STOCK NOT OWNED BY INDIVIDUAL.**—Stock
 22 owned, directly or indirectly, by or for a corporation,
 23 partnership, estate, or trust shall be considered as being
 24 owned proportionately by its shareholders, partners, or
 25 beneficiaries.

1 “(2) FAMILY AND PARTNERSHIP OWNERSHIP.—

2 An individual shall be considered as owning the stock
3 owned, directly or indirectly, by or for his family or by
4 or for his partner. For purposes of this paragraph, the
5 family of an individual includes only his brothers and
6 sisters (whether by the whole or half blood), spouse,
7 ancestors, and lineal descendants.

8 “(3) OPTIONS.—If any person has an option to
9 acquire stock, such stock shall be considered as owned by
10 such person. For purposes of this paragraph, an option
11 to acquire such an option, and each one of a series of
12 such options, shall be considered as an option to acquire
13 such stock.

14 “(4) APPLICATION OF FAMILY-PARTNERSHIP AND
15 OPTION RULES.—Paragraphs (2) and (3) shall be
16 applied—

17 “(A) for purposes of the stock ownership
18 requirement provided in section 552 (a) (2), if, but
19 only if, the effect is to make the corporation a foreign
20 personal holding company;

21 “(B) for purposes of section 553 (a) (5)
22 (relating to personal service contracts) or of section
23 553 (a) (6) (relating to the use of property by
24 shareholders), if, but only if, the effect is to make
25 the amounts therein referred to includible under

1 such paragraph as foreign personal holding com-
 2 pany income.

3 “(5) CONSTRUCTIVE OWNERSHIP AS ACTUAL
 4 OWNERSHIP.—Stock constructively owned by a person
 5 by reason of the application of paragraph (1) or (3)
 6 shall, for purposes of applying paragraph (1) or (2),
 7 be treated as actually owned by such person; but stock
 8 constructively owned by an individual by reason of the
 9 application of paragraph (2) shall not be treated as
 10 owned by him for purposes of again applying such
 11 paragraph in order to make another the constructive
 12 owner of such stock.

13 “(6) OPTION RULE IN LIEU OF FAMILY AND
 14 PARTNERSHIP RULE.—If stock may be considered as
 15 owned by an individual under either paragraph (2)
 16 or (3) it shall be considered as owned by him under
 17 paragraph (3).

18 “(b) CONVERTIBLE SECURITIES.—Outstanding securi-
 19 ties convertible into stock (whether or not convertible during
 20 the taxable year) shall be considered as outstanding stock—

21 “(1) for purposes of the stock ownership require-
 22 ment provided in section 552 (a) (2), but only if the
 23 effect of the inclusion of all such securities is to make
 24 the corporation a foreign personal holding company;

25 “(2) for purposes of section 553 (a) (5) (relating

1 to personal service contracts), but only if the effect of
 2 the inclusion of all such securities is to make the amounts
 3 therein referred to includible under such paragraph as
 4 foreign personal holding company income; and

5 “(3) for purposes of section 553 (a) (6) (relating
 6 to the use of property by shareholders), but only if the
 7 effect of the inclusion of all such securities is to make the
 8 amounts therein referred to includible under such para-
 9 graph as foreign personal holding company income.

10 The requirement in paragraphs (1), (2), and (3) that all
 11 convertible securities must be included if any are to be in-
 12 cluded shall be subject to the exception that, where some of
 13 the outstanding securities are convertible only after a later
 14 date than in the case of others, the class having the earlier
 15 conversion date may be included although the others are not
 16 included, but no convertible securities shall be included unless
 17 all outstanding securities having a prior conversion date are
 18 also included.”

19 (f) DIVIDENDS-PAID DEDUCTION.—

20 (1) Paragraph (2) of section 316 (b) (relating to
 21 special rules for dividend defined) is amended to read
 22 as follows:

23 “(2) DISTRIBUTIONS BY PERSONAL HOLDING COM-
 24 PANIES.—

25 “(A) In the case of a corporation which—

1 “(i) under the law applicable to the tax-
2 able year in which the distribution is made, is a
3 personal holding company (as defined in section
4 542), or

5 “(ii) for the taxable year in respect of
6 which the distribution is made under section 563

7 (b) (relating to dividends paid after the close
8 of the taxable year), or section 547 (relating
9 to deficiency dividends), or the corresponding
10 provisions of prior law, is a personal holding
11 company under the law applicable to such tax-
12 able year,

13 the term ‘dividend’ also means any distribution of
14 property (whether or not a dividend as defined in
15 subsection (a)) made by the corporation to its
16 shareholders, to the extent of its undistributed per-
17 sonal holding company income (determined under
18 section 545 without regard to distributions under
19 this paragraph) for such year.

20 “(B) For purposes of subparagraph (A), the
21 term ‘distribution of property’ includes a distribu-
22 tion in complete liquidation occurring within 24
23 months after the adoption of a plan of liquidation,
24 but—

25 “(i) only to the extent of the amounts dis-

1 tributed to distributees other than corporate
2 shareholders, and

3 “(ii) only to the extent that the corpora-
4 tion designates such amounts as a dividend dis-
5 tribution and duly notifies such distributees of
6 such designation, under regulations prescribed
7 by the Secretary or his delegate, but

8 “(iii) not in excess of the sum of such
9 distributees’ allocable share of the undistributed
10 personal holding company income for such
11 year, computed without regard to this subpara-
12 graph or section 562 (b).”

13 (2) Section 331 (b) (relating to nonapplication
14 of section 301) is amended by inserting after “any
15 distribution of property” the phrase “(other than a
16 distribution referred to in paragraph (2) (B) of section
17 316 (b))”.

18 (3) Section 562 (b) (relating to distributions in
19 liquidation) is amended to read as follows:

20 “(b) DISTRIBUTIONS IN LIQUIDATION.—

21 “(1) Except in the case of a personal holding com-
22 pany described in section 542 or a foreign personal
23 holding company described in section (112)552,—552—

24 “(A) in the case of amounts distributed in
25 liquidation, the part of such distribution which is

1 properly chargeable to earnings and profits ac-
2 cumulated after February 28, 1913, shall be treated
3 as a dividend for purposes of computing the divi-
4 dends paid deduction, and

5 “(B) in the case of a complete liquidation
6 occurring within 24 months after the adoption of
7 a plan of liquidation, any distribution within such
8 period pursuant to such plan shall, to the extent of
9 the earnings and profits (computed without regard
10 to capital losses) of the corporation for the taxable
11 year in which such distribution is made, be treated
12 as a dividend for purposes of computing the divi-
13 dends paid deduction.

14 “(2) In the case of a complete liquidation of a per-
15 sonal holding company, occurring within 24 months
16 after the adoption of a plan of liquidation, the amount
17 of any distribution within such period pursuant to such
18 plan shall be treated as a dividend for purposes of com-
19 puting the dividends paid deduction, to the extent that
20 such amount is distributed to corporate distributees and
21 represents such corporate distributees’ allocable share of
22 the undistributed personal holding company income for
23 the taxable year of such distribution computed without

1 regard to this paragraph and without regard to sub-
 2 paragraph (B) of section 316 (b) (2).”

3 (4) Section 551 (b) (relating to amount included
 4 in gross income) is amended by striking out “received
 5 as a dividend” and inserting in lieu thereof “received as
 6 a dividend (determined as if any distribution in liquida-
 7 tion actually made in such taxable year had not been
 8 made) ”.

9 (g) ONE-MONTH LIQUIDATIONS.—Section 333 (relat-
 10 ing to election as to recognition of gain in certain liquida-
 11 tions) is amended by adding at the end thereof the following
 12 new subsection:

13 “(g) SPECIAL RULE.—

14 “(1) LIQUIDATIONS BEFORE JANUARY 1,
 15 (113)~~1966~~ 1967.—In the case of a liquidation occurring
 16 before January 1, (114)~~1966~~ 1967, of a corporation
 17 referred to in paragraph (3) —

18 “(A) the date ‘December 31, 1953’ referred to
 19 in subsections (e) (2) and (f) (1) shall be treated
 20 as if such date were ‘December 31, 1962’, and

21 “(B) in the case of stock in such corporation
 22 held for more than 6 months, the term ‘a dividend’
 23 as used in subsection (e) (1) shall be treated as
 24 if such term were ‘(115)~~class B~~ long-term capital
 25 gain’.

Subparagraph (B) shall not apply to any earnings and profits to which the corporation succeeds after ~~(116) August 1,~~ *December 31, 1963*, pursuant to any corporate reorganization or pursuant to any liquidation to which section 332 applies, except earnings and profits which on ~~(117) August 1,~~ *December 31, 1963*, constituted earnings and profits of a corporation referred to in paragraph (3), and except earnings and profits which were earned after such date by a corporation referred to in paragraph (3).

“(2) LIQUIDATIONS AFTER DECEMBER 31, ~~(118) 1965~~ 1966.—

“(A) IN GENERAL.—In the case of a liquidation occurring after December 31, ~~(119) 1965~~ 1966, of a corporation to which this subparagraph applies—

“(i) the date ‘December 31, 1953’ referred to in subsections (e) (2) and (f) (1) shall be treated as if such date were ‘December 31, 1962’, and

“(ii) so much of the gain recognized under subsection (e) (1) as is attributable to the earnings and profits accumulated after February 28, 1913, and before January 1, ~~(120) 1966~~ 1967, shall, in the case of stock in

1 such corporation held for more than 6 months,
 2 be treated as ~~(121)~~class B *long-term* capital
 3 gain, and only the remainder of such gain shall
 4 be treated as a dividend.

5 Clause (ii) shall not apply to any earnings and
 6 profits to which the corporation succeeds after
 7 ~~(122)August 1~~ *December 31, 1963*, pursuant to
 8 any corporate reorganization or pursuant to any
 9 liquidation to which section 332 applies, except
 10 earnings and profits which on ~~(123)August 1~~
 11 *December 31, 1963*, constituted earnings and profits
 12 of a corporation referred to in paragraph (3), and
 13 except earnings and profits which were earned after
 14 such date by a corporation referred to in paragraph
 15 (3).

16 “(B) CORPORATIONS TO WHICH APPLI-
 17 CABLE.—Subparagraph (A) shall apply only with
 18 respect to a corporation which is referred to in para-
 19 graph (3) and which—

20 “(i) on ~~(124)August 1, 1963~~ *January 1,*
 21 *1964*, owes qualified indebtedness (as defined
 22 in section 545 (c)),

23 “(ii) before January 1, ~~(125)1967~~ *1968*,
 24 notifies the Secretary or his delegate that it may
 25 wish to have subparagraph (A) apply to it

1 and submits such information as may be re-
2 quired by regulations prescribed by the Secre-
3 tary or his delegate, and

4 “(iii) liquidates before the close of the tax-
5 able year in which such corporation ceases to
6 owe such qualified indebtedness or (if earlier)
7 the taxable year referred to in subparagraph
8 (C).

9 “(C) ADJUSTED POST-1963 EARNINGS AND
10 PROFITS EXCEED QUALIFIED INDEBTEDNESS.—In
11 the case of any corporation, the taxable year re-
12 ferred to in this subparagraph is the first taxable
13 year at the close of which its adjusted post-1963
14 earnings and profits equal or exceed the amount of
15 such corporation’s qualified indebtedness on **(126)**
16 ~~August 1, 1963~~ *January 1, 1964*. For purposes of
17 the preceding sentence, the term ‘adjusted post-1963
18 earnings and profits’ means the sum of—

19 “(i) the earnings and profits of such cor-
20 poration for taxable years beginning after De-
21 cember 31, 1963, without diminution by reason
22 of any distributions made out of such earnings
23 and profits, and

24 “(ii) the deductions allowed for taxable
25 years beginning after December 31, 1963, for

1 exhaustion, wear and tear, obsolescence, (127)
 2 ~~or~~ amortization (128), or depletion.

3 “(3) CORPORATIONS REFERRED TO.—For purposes
 4 of paragraphs (1) and (2), a corporation referred to in
 5 this paragraph is a corporation which for at least one of
 6 the two most recent taxable years ending before (129)
 7 the date of the enactment of this subsection *December*
 8 *31, 1963*, was not a personal holding company under
 9 section 542, but would have been a personal holding
 10 company under section 542 for such taxable year if the
 11 law applicable for the first taxable year beginning after
 12 December 31, 1963, had been applicable to such tax-
 13 able (130)year.” *year.*

14 (131)“(4) MISTAKE AS TO APPLICABILITY OF SUBSEC-
 15 TION.—An election made under this section by a quali-
 16 fied electing shareholder of a corporation in which such
 17 shareholder states that such election is made on the as-
 18 sumption that such corporation is a corporation referred
 19 to in paragraph (3) shall have no force or effect if it
 20 is determined that the corporation is not a corporation
 21 referred to in paragraph (3).”

22 (h) EXCEPTION FOR CERTAIN CORPORATIONS.—

23 (1) GENERAL RULE.—Except as provided in para-
 24 graph (2), in the case of a corporation referred to in

1 section 333 (g) (3) of the Internal Revenue Code of
2 1954 (as added by subsection (g) of this section), the
3 amendments made by this section (other than subsec-
4 tions (f) and (g)) shall not apply if there is a com-
5 plete liquidation of such corporation and if the distri-
6 bution of all the property under such liquidation occurs
7 before January 1, 1966.

8 (2) EXCEPTION.—Paragraph (1) shall not apply
9 to any liquidation to which section 332 of the Internal
10 Revenue Code of 1954 applies unless—

11 (A) the corporate distributee (referred to in
12 subsection (b) (1) of such section 332) in such
13 liquidation is liquidated in a complete liquidation to
14 which such section 332 does not apply, and

15 (B) the distribution of all the property under
16 such liquidation occurs before the 91st day after the
17 last distribution referred to in paragraph (1) and
18 before January 1, 1966.

19 (i) DEDUCTION FOR AMORTIZATION OF INDEBTED-
20 NESS.—

21 (1) Section 545 (a) (relating to definition of un-
22 distributed personal holding company income) is
23 amended by striking out “subsection (b)” and inserting
24 in lieu thereof “subsections (b) and (c)”.

1 (2) Section 545 is amended by adding at the end
2 thereof the following new subsection:

3 “(c) SPECIAL ADJUSTMENT TO TAXABLE INCOME.—

4 “(1) IN GENERAL.—Except as otherwise provided
5 in this subsection, for purposes of subsection (a) there
6 shall be allowed as a deduction amounts used, or amounts
7 irrevocably set aside (to the extent reasonable with
8 reference to the size and terms of the indebtedness), to
9 pay or retire qualified indebtedness.

10 “(2) CORPORATIONS TO WHICH APPLICABLE.—

11 This subsection shall apply only with respect to a corpo-
12 ration—

13 “(A) which for at least one of the two most
14 recent taxable years ending before (132)the date
15 of the enactment of this subsection *December 31,*
16 *1963,* was not a personal holding company under
17 section 542, but would have been a personal holding
18 company under section 542 for such taxable year if
19 the law applicable for the first taxable year begin-
20 ning after December 31, 1963, had been applicable
21 to such taxable year, or

22 “(B) to the extent that it succeeds to the de-
23 duction referred to in paragraph (1) by reason of
24 section 381(c) (15).

1 “(3) QUALIFIED INDEBTEDNESS.—

2 “(A) IN GENERAL.—Except as otherwise pro-
3 vided in this paragraph, for purposes of this sub-
4 section the term ‘qualified indebtedness’ means—

5 “(i) the outstanding indebtedness incurred
6 by the taxpayer after December 31, 1933, and
7 before ~~(133) August 1, 1963,~~ *January 1,*
8 *1964,* and

9 “(ii) the outstanding indebtedness incurred
10 after ~~(134) July 31, 1963,~~ *December 31, 1963,*
11 for the purpose of making a payment or set-
12 aside referred to in paragraph (1) in the same
13 taxable year, but ~~(135), in the case of such a~~
14 ~~payment or set-aside which is made on or after~~
15 ~~the first day of the first taxable year beginning~~
16 ~~after December 31, 1963,~~ only to the extent the
17 deduction otherwise allowed in paragraph (1)
18 with respect to such payment or set-aside is
19 treated as nondeductible by reason of the elec-
20 tion provided in paragraph (4).

21 “(B) EXCEPTION.—For purposes of subpara-
22 graph (A), qualified indebtedness does not include
23 any amounts which were, at any time after ~~(136)~~
24 ~~July 31, December 31, 1963,~~ and before the pay-

1 ment or set-aside, owed to a person who at such
2 time owned (or was considered as owning within
3 the meaning of section 318 (a)) more than 10 per-
4 cent in value of the taxpayer's outstanding stock.

5 “(C) REDUCTION FOR AMOUNTS IRREVO-
6 CABLY SET ASIDE.—For purposes of subparagraph
7 (A), the qualified indebtedness with respect to a
8 contract shall be reduced by amounts irrevocably
9 set aside before the taxable year to pay or retire
10 such indebtedness; and no deduction shall be al-
11 lowed under paragraph (1) for payments out of
12 amounts so set aside.

13 “(4) ELECTION NOT TO DEDUCT.—A taxpayer
14 may elect, under regulations prescribed by the Secre-
15 tary or his delegate, to treat as nondeductible an amount
16 otherwise deductible under paragraph (1) ; but only
17 if the taxpayer files such election on or before the 15th
18 day of the third month following the close of the taxable
19 year with respect to which such election applies, desig-
20 nating therein the amounts which are to be treated as
21 nondeductible and specifying the indebtedness (referred
22 to in paragraph (3) (A) (ii)) incurred for the purpose
23 of making the payment or set-aside.

“(5) LIMITATIONS.—The deduction otherwise allowed by this subsection for the taxable year shall be reduced by the sum of—

“(A) the amount, if any, by which—

“(i) the deductions allowed for the taxable year and all preceding taxable years beginning after December 31, 1963, for exhaustion, wear and tear, obsolescence, ~~(137) or amortization~~ *amortization, or depletion* (other than such deductions which are disallowed in computing undistributed personal holding company income under subsection (b) (8)), exceed

“(ii) any reduction, by reason of this subparagraph, of the deductions otherwise allowed by this subsection for such preceding taxable years, and

“(B) the amount, if any, by which—

“(i) the deductions allowed under subsection (b) (5) in computing undistributed personal holding company income for the taxable year and all preceding taxable years beginning after December 31, 1963, exceed

“(ii) any reduction, by reason of this sub-

1 paragraph, of the deductions otherwise allowed
 2 by this subsection for such preceding taxable
 3 years.

4 “(6) PRO-RATA REDUCTION IN CERTAIN CASES.—

5 For purposes of paragraph (3) (A), if property (of a
 6 character which is subject to ~~(138)~~*the an* allowance for
 7 exhaustion, wear and tear, obsolescence, ~~(139)~~*or amor-*
 8 *tization amortization, or depletion*) is disposed of after
 9 ~~(140)~~*July 31* December 31, 1963, the total amounts of
 10 qualified indebtedness of the taxpayer shall be reduced
 11 pro-rata in the taxable year of such disposition by the
 12 amount, if any, by which—

13 “(A) the adjusted basis of such property at the
 14 time of such disposition, exceeds

15 “(B) the amount of qualified indebtedness
 16 which ceased to be qualified indebtedness with
 17 respect to the taxpayer by reason of the assump-
 18 tion of the indebtedness by the transferee.”

19 (3) Paragraph (15) of section 381(c) (relating
 20 to carryovers in certain corporate acquisitions) is
 21 amended to read as follows:

22 “(15) INDEBTEDNESS OF CERTAIN PERSONAL
 23 HOLDING COMPANIES.—The acquiring corporation shall
 24 be considered to be the distributor or transferor corpora-
 25 tion for the purpose of determining the applicability of

1 subsections (b) (7) and (c) of section 545, relating to
 2 deduction with respect to payment of certain indebted-
 3 ness.”

4 **(141)(j) INCREASE IN BASIS WITH RESPECT TO CERTAIN**
 5 **FOREIGN PERSONAL HOLDING COMPANY HOLDINGS.—**

6 **(1) IN GENERAL.—**Part II of subchapter O of
 7 chapter 1 (relating to basis rules of general application)
 8 is amended by redesignating section 1022 as section
 9 1023 and by inserting after section 1021 the following
 10 new section:

11 **“SEC. 1022. INCREASE IN BASIS WITH RESPECT TO CER-**
 12 **TAIN FOREIGN PERSONAL HOLDING COME**
 13 **PANY HOLDINGS.**

14 **“(a) GENERAL RULE.—**The basis (determined under
 15 section 1014(b)(5), relating to basis of stock or securities
 16 in a foreign personal holding company) of a share of stock
 17 or a security, acquired from a decedent dying after August
 18 15, 1963, of a corporation which was a foreign personal
 19 holding company for its most recent taxable year ending
 20 before the date of the enactment of this section shall be in-
 21 creased by its proportionate share of any Federal estate tax
 22 attributable to the net appreciation in value of all of such
 23 shares and securities determined as provided in this section.

24 **“(b) PROPORTIONATE SHARE.—**For purposes of sub-
 25 section (a), the proportionate share of a share of stock or of

1 a security is that amount which bears the same ratio to the
 2 aggregate increase determined under subsection (c)(2) as
 3 the appreciation in value of such share or security bears to
 4 the aggregate appreciation in value of all such shares and
 5 securities having appreciation in value.

6 “(c) SPECIAL RULES AND DEFINITIONS.—For pur-
 7 poses of this section—

8 “(1) FEDERAL ESTATE TAX.—The term ‘Federal
 9 estate tax’ means only the tax imposed by section 2001
 10 or 2101, reduced by any credit allowable with respect
 11 to a tax on prior transfers by section 2013 or 2102.

12 “(2) FEDERAL ESTATE TAX ATTRIBUTABLE TO
 13 NET APPRECIATION IN VALUE.—The Federal estate tax
 14 attributable to the net appreciation in value of all shares
 15 of stock and securities to which subsection (a) applies
 16 is that amount which bears the same ratio to the Federal
 17 estate tax as the net appreciation in value of all of such
 18 shares and securities bears to the value of the gross estate
 19 as determined under chapter 11 (including section 2032,
 20 relating to alternative valuation).

21 “(3) NET APPRECIATION.—The net appreciation in
 22 value of all shares and securities to which subsection (a)
 23 applies is the amount by which the fair market value of
 24 all such shares and securities exceeds the basis of such
 25 property in the hands of the decedent.

1 “~~(4)~~ FAIR MARKET VALUE.—For purposes of this
2 section, the term ‘fair market value’ means fair market
3 value determined under chapter 11 (including section
4 2032, relating to alternate valuation).

5 “~~(d)~~ LIMITATIONS.—This section shall not apply to
6 any foreign personal holding company referred to in section
7 342(a)(2).”

8 ~~(2)~~ AMENDMENT OF SECTION 1016(a).—Section
9 1016(a) (relating to adjustments to basis) is amended
10 by striking out the period at the end thereof and by
11 inserting in lieu thereof a semicolon and by adding at
12 the end thereof the following new paragraph:

13 “~~(21)~~ to the extent provided in section 1022, re-
14 lating to increase in basis for certain foreign personal
15 holding company holdings, or in section 216(j)(4) of
16 the Revenue Act of 1963.”

17 ~~(3)~~ CLERICAL AMENDMENTS.—

18 ~~(A)~~ The table of sections for part II of sub-
19 chapter 0 of chapter 1 is amended by striking
20 out

“Sec. 1022. Cross references.”

21 and inserting in lieu thereof the following:

“Sec. 1022. Increase in basis with respect to certain foreign
personal holding company holdings.

“Sec. 1023. Cross references.”

1 ~~(4) ONE-MONTH LIQUIDATIONS.—If—~~

2 ~~(A)~~ a corporation was a foreign personal
3 holding company for its most recent taxable year
4 ending before the date of the enactment of this
5 Act,

6 ~~(B)~~ all of the stock of such corporation is
7 owned on August 15, 1963, and at the time of
8 liquidation, by individuals and estates, and

9 ~~(C)~~ the transfer of all the property under the
10 liquidation occurs within one of the first 4 calendar
11 months ending after such date of enactment,

12 then such corporation shall be treated as a domestic
13 corporation for purposes of section 333 of the Internal
14 Revenue Code of 1954 ~~(relating to 1-month liquida-~~
15 ~~tions)~~; and shall be treated as a foreign corporation for
16 purposes of section 367 of such Code ~~(relating to foreign~~
17 ~~corporations)~~. In applying such section 367 for pur-
18 poses of this paragraph, references in the first sentence of
19 such section 367 to other sections of such Code shall be
20 treated as including a reference to such section 333.

21 ~~(5) BASIS OF CERTAIN PROPERTY ACQUIRED~~
22 ~~FROM A DECEDENT.—~~

23 ~~(A)~~ In the case of property described in sub-
24 paragraph ~~(B)~~ acquired from a decedent or passing
25 from a decedent ~~(within the meaning of section~~

1 ~~1014(b)~~ of the Internal Revenue Code of 1954),
2 the basis shall (in lieu of being the basis provided
3 by section ~~1014~~ of such Code) be the basis immedi-
4 ately before the death of the decedent, increased
5 by the amount of any Federal estate tax attributable
6 to the net appreciation in value of such property
7 (determined in accordance with section ~~1022~~ of such
8 Code as if such property were stock and securities
9 referred to in such section).

10 ~~(B)~~ Subparagraph ~~(A)~~ shall apply to—

11 ~~(i)~~ property which the decedent received
12 as a qualified electing shareholder, and

13 ~~(ii)~~ property the basis of which (without
14 the application of this paragraph) is a sub-
15 stituted basis (as defined in section ~~1016(b)~~
16 of the Internal Revenue Code of 1954) deter-
17 mined by reference to the basis of such property
18 or other property received by any individual or
19 estate as a qualified electing shareholder.

20 For purposes of this subparagraph, property shall
21 be treated as property received as a qualified elect-
22 ing shareholder if, with respect to such property, the
23 recipient was a qualified electing shareholder (within
24 the meaning of section ~~333(c)~~ of such Code) in

1 a corporate liquidation to which section 333 of
 2 such Code applied by reason of paragraph (4) of
 3 this subsection.

4 ~~(C)~~ In the case of property acquired from the
 5 decedent by gift, the increase in basis under this
 6 paragraph shall not exceed the amount by which
 7 the increase under this paragraph is greater than
 8 the increase allowable under section 1015(d) of the
 9 Internal Revenue Code of 1954.

10 ~~(6)~~ LIMITATIONS.—The provisions of paragraphs
 11 ~~(4)~~ and ~~(5)~~ of this subsection shall not apply to any
 12 foreign corporation referred to in section 342(a)(2)
 13 of the Internal Revenue Code of 1954.

14 ~~(7)~~ MEANING OF TERMS.—Terms used in para-
 15 graphs ~~(4)~~ through ~~(6)~~ of this subsection shall have
 16 the same meaning as when used in chapter 1 of the
 17 Internal Revenue Code of 1954.

18 ~~(142)(k)~~ (j) TECHNICAL AMENDMENTS.—

19 (1) Section 542 (b) (relating to corporations filing
 20 consolidated returns) is amended by striking out “gross
 21 income” each place it appears and inserting in lieu
 22 thereof “adjusted ordinary gross income”.

23 (2) Section 543 (relating to personal holding com-
 24 pany income) is amended by striking out subsection

(d) (relating to special adjustment on disposition of antitrust stock received as a dividend).

(3) Section 544 (relating to rules for determining stock ownership) is amended—

(A) by striking out “section 543 (a) (5)” each place it appears and inserting in lieu thereof “section 543 (a) (7)”, and

(B) by striking out “section 543 (a) (9)” each place it appears and inserting in lieu thereof “section 543 (a) (4)”.

(4) REAL ESTATE INVESTMENT TRUSTS.—Paragraph (6) of section 856 (a) (relating to definition of real estate investment trust) is amended by striking out “gross income” and inserting in lieu thereof “adjusted ordinary gross income (as defined in section 543 (b) (2))”.

(5) UNINCORPORATED BUSINESS ENTERPRISES ELECTING TO BE TAXED AS DOMESTIC CORPORATIONS.—Section 1361 (i) (relating to personal holding company income) is amended to read as follows:

“(i) PERSONAL HOLDING COMPANY INCOME.—

“(1) EXCLUDED FROM INCOME OF ENTERPRISE.—

There shall be excluded from the gross income of the enterprise as to which an election has been made under

1 subsection (a) any item of gross income (computed
2 without regard to the adjustments provided in section
3 543 (b) (3) or (4)) if, but for this paragraph, such
4 item (adjusted, where applicable, as provided in section
5 543 (b) (3) or (4)) would constitute personal holding
6 company income (as defined in section 543 (a)) of such
7 enterprise.

8 “(2) INCOME AND DEDUCTIONS OF OWNERS.—
9 Items excluded from the gross income of the enter-
10 prise under paragraph (1), and the expenses attribut-
11 able thereto, shall be treated as the income and deduc-
12 tions of the proprietor or partners (in accordance with
13 their distributive shares of partnership income) of such
14 enterprise.

15 “(3) DISTRIBUTIONS.—If—

16 “(A) the amount excluded from gross income
17 under paragraph (2) exceeds the expenses at-
18 tributable thereto, and

19 “(B) any portion of such excess is distributed
20 to the proprietor or partner during the year earned,
21 such portion shall not be taxed as a corporate distribu-
22 tion. The portion of such excess not distributed during
23 such year shall be considered as paid-in surplus or as
24 a contribution to capital as of the close of such year.”

(6) ASSESSMENT AND COLLECTION OF PERSONAL HOLDING COMPANY TAX.—Section 6501 (f) (relating to personal holding company tax) is amended by striking out “gross income, described in section 543 (a),” and inserting in lieu thereof “gross income and adjusted ordinary gross income, described in section 543,”.

~~(143)~~~~(1)~~ (k) EFFECTIVE DATES.—

(1) The amendments made by this section (other than by subsections (c) (1), (f), ~~(144)~~~~(g)~~, and ~~(j)~~ and (g)) shall apply to taxable years beginning after December 31, 1963.

(2) The amendment made by subsection (c) (1) shall apply to taxable years beginning after October 16, 1962.

(3) The amendments made by subsections (f) and (g) shall apply to distributions made in any taxable year of the distributing corporation beginning after December 31, 1963.

~~(145)~~~~(4)~~ the amendments made by paragraphs ~~(1)~~, ~~(2)~~, and ~~(3)~~ of subsection ~~(j)~~ shall apply in respect of decedents dying after August 15, 1963.

~~(146)~~~~(5)~~ (4) Subsection (h) shall apply to taxable years beginning after December 31, 1963.

1 SEC. (147)~~217~~. 227. TREATMENT OF PROPERTY IN CASE
2 OF OIL AND GAS WELLS.

3 (a) IN GENERAL.—Section 614 (b) (relating to special
4 rule as to operating mineral interests) is amended to read as
5 follows:

6 “(b) SPECIAL RULES AS TO OPERATING MINERAL
7 INTERESTS IN OIL AND GAS WELLS.—In the case of oil
8 and gas wells—

9 “(1) IN GENERAL.—Except as otherwise provided
10 in this subsection—

11 “(A) all of the taxpayer’s operating mineral
12 interests in a separate tract or parcel of land shall
13 be combined and treated as one property, and

14 “(B) the taxpayer may not combine an operat-
15 ing mineral interest in one tract or parcel of land
16 with an operating mineral interest in another tract
17 or parcel of land.

18 “(2) ELECTION TO TREAT OPERATING MINERAL
19 INTERESTS AS SEPARATE PROPERTIES.—If the tax-
20 payer has more than one operating mineral interest in
21 a single tract or parcel of land, he may elect to treat
22 one or more of such operating mineral interests as
23 separate properties. The taxpayer may not have more
24 than one combination of operating mineral interests in
25 a single tract or parcel of land. If the taxpayer makes

1 the election provided in this paragraph with respect to
 2 any interest in a tract or parcel of land, each operating
 3 mineral interest which is discovered or acquired by the
 4 taxpayer in such tract or parcel of land after the taxable
 5 year for which the election is made shall be treated—

6 “(A) if there is no combination of interests in
 7 such tract or parcel, as a separate property unless
 8 the taxpayer elects to combine it with another in-
 9 terest, or

10 “(B) if there is a combination of interests in
 11 such tract or parcel, as part of such combination
 12 unless the taxpayer elects to treat it as a separate
 13 property.

14 “(3) CERTAIN UNITIZATION OR POOLING AR-
 15 RANGEMENTS.—

16 “(A) IN GENERAL.—Under regulations pre-
 17 scribed by the Secretary or his delegate, if one or
 18 more of the taxpayer’s operating mineral interests
 19 participate, under a voluntary or compulsory
 20 unitization or pooling agreement, in a single co-
 21 operative or unit plan of operation, then for the
 22 period of such participation—

23 “(i) they shall be treated for all purposes
 24 of this subtitle as one property, and

25 “(ii) the application of paragraphs (1),

1 (2), and (4) in respect of such interests shall
2 be suspended.

3 “(B) LIMITATION.—Subparagraph (A) shall
4 apply to a voluntary agreement only if all the
5 operating mineral interests covered by such agree-
6 ment—

7 “(i) are in the same deposit, or are in 2
8 or more deposits the joint development or pro-
9 duction of which is logical from the standpoint
10 of geology, convenience, economy, or conser-
11 vation, and

12 “(ii) are in tracts or parcels of land which
13 are contiguous or in close proximity.

14 “(C) SPECIAL RULE IN THE CASE OF AR-
15 RANGEMENTS ENTERED INTO IN TAXABLE YEARS
16 BEGINNING BEFORE JANUARY 1, 1964.—If—

17 “(i) two or more of the taxpayer’s op-
18 erating mineral interests participate under a
19 voluntary or compulsory unitization or pooling
20 agreement entered into in any taxable year
21 beginning before January 1, 1964, in a single
22 cooperative or unit plan of operation,

23 “(ii) the taxpayer, for the last taxable

1 year beginning before January 1, 1964, treated
2 such interests as two or more separate prop-
3 erties, and

4 “ (iii) it is determined that such treatment
5 was proper under the law applicable to such
6 taxable year,

7 such taxpayer may continue to treat such interests
8 in a consistent manner for the period of such par-
9 ticipation.

10 “ (4) MANNER, TIME, AND SCOPE OF ELECTION.—

11 “ (A) MANNER AND TIME.—Any election pro-
12 vided in paragraph (2) shall be made for each
13 operating mineral interest, in the manner prescribed
14 by the Secretary or his delegate by regulations, not
15 later than the time prescribed by law for filing the
16 return (including extensions thereof) for whichever
17 of the following taxable years is the later: The first
18 taxable year beginning after December 31, 1963,
19 or the first taxable year in which any expenditure
20 for development or operation in respect of such oper-
21 ating mineral interest is made by the taxpayer after
22 the acquisition of such interest.

23 “ (B) SCOPE.—Any election under paragraph

1 (2) shall be for all purposes of this subtitle and
 2 shall be binding on the taxpayer for all subsequent
 3 taxable years.

4 “(5) TREATMENT OF CERTAIN PROPERTIES.—If,
 5 on the day preceding the first day of the first taxable
 6 year beginning after December 31, 1963, the taxpayer
 7 has any operating mineral interests which he treats
 8 under subsection (d) of this section (as in effect before
 9 the amendments made by the Revenue Act of (148)
 10 ~~1963~~ 1964), such treatment shall be continued and shall
 11 be deemed to have been adopted pursuant to paragraphs
 12 (1) and (2) of this subsection (as amended by such
 13 Act).”

14 (b) TECHNICAL AMENDMENTS.—

15 (1) The heading of section 614 (c) is amended to
 16 read as follows:

17 “(c) SPECIAL RULES AS TO OPERATING MINERAL
 18 INTERESTS IN MINES.—”

19 (2) Paragraph (5) of section 614 (c) is hereby
 20 repealed.

21 (3) Section 614 (d) is amended to read as follows:

22 “(d) OPERATING MINERAL INTERESTS DEFINED.—

23 For purposes of this section, the term ‘operating mineral in-
 24 terest’ includes only an interest in respect of which the costs
 25 of production of the mineral are required to be taken into

1 account by the taxpayer for purposes of computing the 50
 2 percent limitation provided for in section 613, or would be
 3 so required if the mine, well, or other natural deposit were in
 4 the production stage.”

5 (4) Section 614 (e) (2) is amended by striking
 6 out “within the meaning of subsection (b) (3)”.

7 (c) ALLOCATION OF BASIS IN CERTAIN CASES.—For
 8 purposes of the Internal Revenue Code of 1954—

9 (1) FAIR MARKET VALUE RULE.—Except as pro-
 10 vided in paragraph (2), if a taxpayer has a section
 11 614 (b) aggregation, then the adjusted basis (as of the
 12 first day of the first taxable year beginning after Decem-
 13 ber 31, 1963) of each property included in such aggre-
 14 gation shall be determined by multiplying the adjusted
 15 basis of the aggregation by a fraction—

16 (A) the numerator of which is the fair market
 17 value of such property, and

18 (B) the denominator of which is the fair mar-
 19 ket value of such aggregation.

20 For purposes of this paragraph, the adjusted basis and
 21 the fair market value of the aggregation, and the fair
 22 market value of each property included therein, shall
 23 be determined as of the day preceding the first day of
 24 the first taxable year which begins after December
 25 31, 1963.

1 (2) ALLOCATION OF ADJUSTMENTS, ETC.—If the
2 taxpayer makes an election under this paragraph with
3 respect to any section 614(b) aggregation, then the
4 adjusted basis (as of the first day of the first taxable year
5 beginning after December 31, 1963) of each property
6 included in such aggregation shall be the adjusted basis
7 of such property at the time it was first included in the
8 aggregation by the taxpayer, adjusted for that portion of
9 those adjustments to the basis of the aggregation which
10 are reasonably attributable to such property. If, under
11 the preceding sentence, the total of the adjusted bases of
12 the interests included in the aggregation exceeds the
13 adjusted basis of the aggregation (as of the day preced-
14 ing the first day of the first taxable year which begins
15 after December 31, 1963), the adjusted bases of the
16 properties which include such interests shall be adjusted,
17 under regulations prescribed by the Secretary of the
18 Treasury or his delegate, so that the total of the ad-
19 justed bases of such interests equals the adjusted basis
20 of the aggregation. An election under this paragraph
21 shall be made at such time and in such manner as the

1 Secretary of the Treasury or his delegate shall by regu-
2 lations prescribe.

3 (3) DEFINITIONS.—For purposes of this subsec-
4 tion—

5 (A) SECTION 614(b) AGGREGATION.—The
6 term “section 614 (b) aggregation” means any ag-
7 gregation to which section 614 (b) (1) (A) of the
8 Internal Revenue Code of 1954 (as in effect before
9 the amendments made by subsection (a) of this
10 section) applied for the day preceding the first day
11 of the first taxable year beginning after December
12 31, 1963.

13 (B) PROPERTY.—The term “property” has the
14 same meaning as is applicable, under section 614
15 of the Internal Revenue Code of 1954, to the tax-
16 payer for the first taxable year beginning after
17 December 31, 1963.

18 (d) EFFECTIVE DATE.—The amendments made by sub-
19 sections (a) and (b) shall apply to taxable years beginning
20 after December 31, 1963.

1 SEC. ~~(149)~~²⁴⁸ 228. TREATMENT OF CERTAIN IRON ORE
2 ROYALTIES.

3 (a) IN GENERAL.—

4 (1) AMENDMENT OF SECTION 631(c).—Section
5 631 (c) (relating to disposal of coal with a retained eco-
6 nomic interest) is amended—

7 (A) by striking out the heading and inserting
8 in lieu thereof the following:

9 “(c) DISPOSAL OF COAL OR ~~(150)~~^{DOMESTIC} IRON
10 ORE WITH A RETAINED ECONOMIC INTEREST.—”;
11

12 ~~(151)(B)~~ by inserting “or iron ore” after “coal (in-
cluding lignite)”; and

13 (B) by inserting “or iron ore mined in the
14 United States,” after “coal (including lignite),”;
15

16 (C) by inserting “or iron ore” after “coal”
each other place it appears in section ~~(152)~~^{631(e)}.
17 631(c); and

18 ~~(153)~~^(D) by adding at the end thereof the following
19 new sentence:

20 “This subsection shall not apply to any disposal of iron ore—

21 “(1) to a person whose relationship to the person
22 disposing of such iron ore would result in the disallow-
23 ance of losses under section 267 or 707(b), or

1 “(2) to a person owned or controlled directly or
2 indirectly by the same interests which own or control the
3 person disposing of such iron ore.”

4 (2) AMENDMENT OF SECTION 1231(b).—Section
5 1231 (b) (2) (defining property used in the trade or
6 business) is amended to read as follows:

7 “(2) TIMBER, COAL, OR (154)DOMESTIC IRON
8 ORE.—Such term includes timber, coal, and iron ore
9 with respect to which section 631 applies.”

10 (3) AMENDMENT OF SECTION 272.—The text of
11 section 272 (relating to disposal of coal) is amended by
12 inserting “or iron ore” after “coal” each place it appears.

13 (b) CLERICAL AMENDMENTS.—

14 (1) the heading of section 631 is amended to read
15 as follows:

16 “SEC. 631. GAIN OR LOSS IN THE CASE OF TIMBER, COAL,
17 OR (155)DOMESTIC IRON ORE.”

18 (2) The table of sections for part III of subchapter
19 I of chapter 1 is amended by striking out

 “Sec. 631. Gain or loss in the case of timber or coal.”

20 and inserting in lieu thereof the following:

 “Sec. 631. Gain or loss in the case of timber, coal, or
 (156)domestic iron ore.”

1 (3) The heading of section 272 is amended to read
2 as follows:

3 “SEC. 272. DISPOSAL OF COAL OR (157)DOMESTIC IRON
4 ORE.”

5 (4) The table of sections for part IX of subchapter
6 B of chapter 1 is amended by striking out

“Sec. 272. Disposal of coal.”

7 and inserting in lieu thereof the following:

“Sec. 272. Disposal of coal or (158)domestic iron ore.”

8 (5) Section 1016 (a) (15) is amended by inserting
9 “or (159)domestic iron ore” after “coal”.

10 (6) Section 1402 (a) (3) (B) is amended to read
11 as follows:

12 “(B) from the cutting of timber, or the dis-
13 posal of timber, coal, or iron ore, if section 631
14 applies to such gain or loss, or”

15 (160)(7) *Section 211(a)(3) of the Social Security Act*
16 *is amended by striking out clause (B) and inserting in*
17 *lieu thereof “(B) from the cutting of timber, or the dis-*
18 *posal of timber, coal, or iron ore, if section 631 of the*
19 *Internal Revenue Code of 1954 applies to such gain or*
20 *loss,”.*

21 (161)(e) ~~EFFECTIVE DATE.~~ The amendments made by
22 this section shall apply to iron ore mined in taxable years
23 beginning after December 31, 1963.

1 (c) *EFFECTIVE DATE.*—The amendments made by this
 2 section shall apply with respect to amounts received or ac-
 3 crued in taxable years beginning after December 31, 1963,
 4 attributable to iron ore mined in such taxable years.

5 (162)SEC. 229. *INSURANCE COMPANIES.*

6 (a) *CERTAIN MUTUALIZATION DISTRIBUTIONS MADE*
 7 *IN 1962.*—

8 (1) *DEDUCTION FOR CERTAIN MUTUALIZATION*
 9 *DISTRIBUTIONS.*—Section 809(d)(11) (relating to
 10 deductions in computing gain from operations in the
 11 case of certain mutualization distributions) is amended
 12 by striking out “and 1961” and inserting in lieu thereof
 13 “1961, and 1962”.

14 (2) *APPLICATION OF SECTION 815.*—Section
 15 809(g)(3) (relating to application of section 815 to
 16 certain mutualization distributions) is amended by strik-
 17 ing out “or 1961” and inserting in lieu thereof “1961,
 18 or 1962”.

19 (b) *ACCRUAL OF BOND DISCOUNT.*—

20 (1) *LIFE INSURANCE COMPANIES.*—Section 818
 21 (b) (relating to amortization of premium and accrual
 22 of discount) is amended by adding at the end thereof
 23 the following new paragraph:

24 “(3) *EXCEPTION.*—For taxable years beginning

1 after December 31, 1962, no accrual of discount shall
 2 be required under paragraph (1) on any bond (as
 3 defined in section 171(d)), except in the case of discount
 4 which is—

5 “(A) interest to which section 103 applies, or

6 “(B) original issue discount (as defined in
 7 section 1232(b)).

8 For purposes of section 805(b)(3)(A), the current
 9 earnings rate for any taxable year beginning before
 10 January 1, 1963, shall be determined as if the preceding
 11 sentence applied to such taxable year.”

12 (2) *MUTUAL INSURANCE COMPANIES.*—Section
 13 822(d)(2) (relating to amortization of premium and ac-
 14 crual of discount) is amended by adding at the end
 15 thereof the following new sentence: “For taxable years
 16 beginning after December 31, 1962, no accrual of dis-
 17 count shall be required under this paragraph on any bond
 18 (as defined in section 171(d)).”

19 (c) *CONTRIBUTIONS TO QUALIFIED, ETC., PLANS.*—
 20 Section 832(c)(10) (relating to deductions allowed in com-
 21 puting taxable income of certain insurance companies) is
 22 amended by inserting before the semicolon at the end thereof
 23 “and in part I of subchapter D (sec. 401 and following, relat-
 24 ing to pension, profit-sharing, stock bonus plans, etc.)”.

25 (d) *EFFECTIVE DATES.*—The amendment made by sub-

1 section (a) shall apply to taxable years beginning after De-
 2 cember 31, 1961. The amendment made by subsection (c)
 3 shall apply to taxable years beginning after December 31,
 4 1953, and ending after August 16, 1954.

5 **(163)SEC. 230. REGULATED INVESTMENT COMPANIES.**

6 (a) *TIME FOR MAILING CERTAIN NOTICES TO*
 7 *SHAREHOLDERS.*—The following provisions (relating to
 8 notices to shareholders by regulated investment companies)
 9 are amended by striking out “30 days”, wherever appearing
 10 therein, and inserting in lieu thereof “45 days”:

- 11 (1) Section 852(b)(3)(C),
- 12 (2) Section 852(b)(3)(D)(i),
- 13 (3) Section 853(c),
- 14 (4) Section 854(b)(2), and
- 15 (5) Section 855(c).

16 (b) *CERTAIN REDEMPTIONS BY UNIT INVESTMENT*
 17 *TRUSTS.*—Section 852 (relating to taxation of regulated in-
 18 vestment companies and their shareholders) is amended by
 19 adding at the end thereof the following new subsection:

20 “(d) *DISTRIBUTIONS IN REDEMPTION OF INTERESTS*
 21 *IN UNIT INVESTMENT TRUSTS.*—In the case of a unit
 22 investment trust—

23 “(1) which is registered under the Investment Com-
 24 pany Act of 1940 and issues periodic payment plan
 25 certificates (as defined in such Act), and

1 “(2) substantially all of the assets of which consist of
 2 securities issued by a management company (as defined in
 3 such Act),
 4 section 562(c) (relating to preferential dividends) shall not
 5 apply to a distribution by such trust to a holder of an interest
 6 in such trust in redemption of part or all of such interest,
 7 with respect to the net capital gain of such trust attributable
 8 to such redemption.”

9 (c) *EFFECTIVE DATES.*—The amendments made by
 10 subsection (a) shall apply to taxable years of regulated invest-
 11 ment companies ending on or after the date of the enactment
 12 of this Act. The amendment made by subsection (b) shall
 13 apply to taxable years of regulated investment companies
 14 ending after December 31, 1963.

15 **(164)SEC. 231. FOREIGN TAX CREDIT WITH RESPECT TO**
 16 **CERTAIN FOREIGN MINERAL INCOME.**

17 (a) *LIMITATION ON AMOUNT OF FOREIGN TAXES TO*
 18 *BE TAKEN INTO ACCOUNT.*—Section 901 (relating to taxes
 19 of foreign countries and possessions of the United States) is
 20 amended—

21 (1) by redesignating subsection (d) as (e); and
 22 (2) by inserting after subsection (c) the following
 23 new subsection:

1 “(d) *FOREIGN TAXES ON MINERAL INCOME.*—

2 “(1) *REDUCTION OF AMOUNTS TO BE TAKEN*
3 *INTO ACCOUNT.*—

4 “(A) *PER-COUNTRY LIMITATION TAXPAY-*
5 *ERS.*—*In the case of a taxpayer to whom the limita-*
6 *tion provided by section 904(a)(1) applies for the*
7 *taxable year, the amount of taxes paid or accrued*
8 *during the taxable year to any foreign country with*
9 *respect to mineral income which would (but for*
10 *this paragraph) be taken into account for purposes*
11 *of this subpart shall be reduced by the amount (if*
12 *any) by which—*

13 “(i) *the amount of such taxes (or, if*
14 *smaller, the amount of the tax which would be*
15 *computed under this chapter with respect to*
16 *such income determined without the deduction*
17 *allowed under section 613), exceeds*

18 “(ii) *the amount of the tax computed un-*
19 *der this chapter with respect to such income.*

20 “(B) *OVERALL LIMITATION TAXPAYERS.*—

21 *In the case of a taxpayer to whom the limitation*
22 *provided by section 904(a)(2) applies for the tax-*
23 *able year, the amount of taxes paid or accrued*

1 *during the taxable year to all foreign countries*
 2 *with respect to mineral income which would (but*
 3 *for this paragraph) be taken into account for pur-*
 4 *poses of this subpart shall be reduced by the amount*
 5 *(if any) by which—*

6 *“(i) the amount of such taxes (or, if*
 7 *smaller, the amount of the tax which would be*
 8 *computed under this chapter with respect to*
 9 *such income determined without the deduction*
 10 *allowed under section 613), exceeds*

11 *“(ii) the amount of tax computed under*
 12 *this chapter with respect to such income.*

13 *“(2) MINERAL INCOME.—*

14 *“(A) IN GENERAL.—For purposes of this sub-*
 15 *section, the term ‘mineral income’ means income de-*
 16 *rived from sources without the United States from*
 17 *mineral activities, including, but not limited to—*

18 *“(i) dividends received from corporations*
 19 *in which 5 percent or more of the voting stock*
 20 *is owned directly or indirectly by the taxpayer,*
 21 *to the extent such dividends are attributable to*
 22 *mineral activities, and*

“(ii) that portion of the taxpayer’s distributive share of income of partnerships attributable to mineral activities.

“(B) MINERAL ACTIVITIES.—For purposes of subparagraph (A), the term ‘mineral activities’ includes the extraction of minerals from mines, wells, or other natural deposits, the processing of such minerals into their primary products, and the transportation, distribution, or sale of such minerals or primary products.”

(b) EFFECTIVE DATE.—The amendments made by subsection (a) shall apply with respect to taxable years beginning after December 31, 1963.

**(165)SEC. 232. AMOUNTS RECEIVED FROM EMPLOYER
ON SALE OF RESIDENCE OF EMPLOYEE
IN CONNECTION WITH TRANSFER TO
NEW PLACE OF WORK.**

(a) TREATMENT OF CERTAIN AMOUNTS RECEIVED FROM EMPLOYER ON SALE OF RESIDENCE OF EMPLOYEE IN CONNECTION WITH TRANSFER TO NEW PLACE OF WORK.—

(1) Part I of subchapter O of chapter 1 (relating

1 to determination of amount of and recognition of gain
 2 or loss) is amended by adding at the end thereof the
 3 following new section:

4 “SEC. 1003. AMOUNTS RECEIVED FROM EMPLOYER ON
 5 SALE OF RESIDENCE OF EMPLOYEE IN CON-
 6 NECTION WITH TRANSFER TO NEW PLACE
 7 OF WORK.

8 “(a) GENERAL RULE.—If—

9 “(1) property (in this section called ‘old resi-
 10 dence’) used by the taxpayer as his principal resi-
 11 dence is sold by the taxpayer or his spouse pursuant
 12 to a sales contract entered into within the forced sale
 13 period for the old residence, and

14 “(2) the taxpayer’s employer, not later than one
 15 year after the date such sales contract was entered into,
 16 pays part or all of the sale differential on the old resi-
 17 dence,

18 then, for purposes of this chapter, the amount so paid shall
 19 be treated by the taxpayer or his spouse (as the case may be)
 20 as an additional amount realized on the sale of the old resi-
 21 dence to the extent that it does not exceed the lesser of (A)
 22 the sale differential, or (B) 15 percent of the gross sales
 23 price of the old residence.

24 “(b) LIMITATIONS.—

25 “(1) PERIOD OF EMPLOYMENT.—This section shall

not apply unless, for the six-month period ending on the day on which the taxpayer commences work at the new principal place of work, he was an employee of the employer.

“(2) *LOCATION OF NEW PLACE OF WORK.*—This section shall not apply unless the taxpayer’s new principal place of work—

“(A) is at least 20 miles farther from the old residence than was his former principal place of work, or

“(B) if he had no former principal place of work, is at least 20 miles from the old residence.

“(c) *DEFINITIONS; SPECIAL RULES.*—For purposes of this section—

“(1) *FORCED SALE PERIOD.*—The term ‘forced sale period’ means the period beginning 90 days before, and ending 180 days after, the date on which the taxpayer commences work as an employee at the new principal place of work.

“(2) *SALE DIFFERENTIAL.*—The term ‘sale differential’ means the amount by which—

“(A) the appraised value of the old residence, exceeds

“(B) the gross sales price of the old residence reduced by the selling commissions, legal fees, and

1 *other expenses incident to the transfer of ownership*
2 *of the old residence.*

3 “(3) *APPRAISED VALUE.*—*The appraised value of*
4 *the old residence is the average of two or more appraisals*
5 *of fair market value made, on or after the valuation date*
6 *and on or before the date on which the sales contract is*
7 *entered into, by independent real estate appraisers se-*
8 *lected by the employer, but shall not exceed the fair mar-*
9 *ket value. Determination of appraised value shall be*
10 *made as of the valuation date.*

11 “(4) *VALUATION DATE.*—*The term ‘valuation*
12 *date’ means the date selected by the employer for pur-*
13 *poses of determining the amount to be paid with re-*
14 *spect to the sale differential. Such date shall be on or*
15 *before the date the sales contract is entered into and*
16 *within the forced sale period.*

17 “(5) *EMPLOYER.*—*The term ‘employer’ means the*
18 *person who employs the taxpayer as an employee at the*
19 *new principal place of work. Such term includes any*
20 *predecessor or successor corporation and any parent cor-*
21 *poration or subsidiary corporation. For purposes of the*
22 *preceding sentence, the determination of whether a cor-*
23 *poration is a parent corporation or a subsidiary corpora-*

tion shall be made under subsections (e) and (f) of section 425 but by reference to the date on which the taxpayer commences work as an employee at the new principal place of work (in lieu of as of the time of the granting of the option).

“(6) *EXCHANGES*.—An exchange by the taxpayer or his spouse of an old residence for other property shall be treated as a sale.

“(7) *TENANT-STOCKHOLDER IN A COOPERATIVE HOUSING CORPORATION*.—References to property used by the taxpayer as his principal residence includes stock held by a tenant-stockholder (as defined in section 216) in a cooperative housing corporation (as defined in such section) if the house or apartment which the taxpayer was entitled to occupy as such stockholder was used by him as his principal residence.

“(d) *REGULATIONS*.—The Secretary or his delegate shall prescribe such regulations as may be necessary to carry out the purposes of this section.”

(2) The table of sections for part I of subchapter O of chapter 1 is amended by adding at the end thereof the following:

“Sec. 1003. Amounts received from employer on sale of residence of employee in connection with transfer to new place of work.”

1 (b) *EFFECTIVE DATE.*—The amendments made by sub-
 2 section (a) shall apply to amounts paid with respect to sales
 3 contracts entered into after December 31, 1963, in taxable
 4 years ending after such date.

5 (166)SEC. 219. CAPITAL GAINS AND LOSSES.

6 ~~(a) ALTERNATIVE TAX, ETC.—~~

7 ~~(1) IN GENERAL.—~~

8 ~~(A) ALTERNATIVE TAX.~~—Subsection ~~(b)~~ of
 9 section 1201 ~~(relating to alternative tax on tax-~~
 10 payers other than corporations) is amended to read
 11 as follows:

12 ~~“(b) OTHER TAXPAYERS.~~—If, for any taxable year, a
 13 taxpayer ~~(other than a corporation)~~ is allowed a deduc-
 14 tion under section 1202, then, in lieu of the tax imposed
 15 by sections 1 and 511(b), there is hereby imposed a tax (if
 16 such a tax is less than the tax imposed by such sections)
 17 which shall consist of the sum of—

18 ~~“(1) a partial tax computed on the taxable income~~
 19 reduced by an amount equal to the sum of—

20 ~~“(A) 40 percent of the adjusted class A capital~~
 21 gain, and

22 ~~“(B) 50 percent of the adjusted class B capital~~
 23 gain,

24 plus

1 “(2) an amount equal to the sum of—

2 “(A) 21 percent of the adjusted class A
3 capital gain, and

4 “(B) 25 percent of the adjusted class B capital
5 gain.”

6 (B) DEDUCTION FOR CAPITAL GAINS.—See
7 tion 1202 (relating to deduction for capital gains)
8 is amended to read as follows:

9 “SEC. 1202. DEDUCTION FOR CAPITAL GAINS.

10 “(a) GENERAL RULE.—In the case of a taxpayer other
11 than a corporation, a deduction from gross income shall
12 be allowed equal to the sum of—

13 “(1) 60 percent of the adjusted class A capital
14 gain, and

15 “(2) 50 percent of the adjusted class B capital
16 gain.

17 “(b) SPECIAL RULE.—In the case of an estate or trust,
18 the deduction allowable under subsection (a) shall be com-
19 puted by excluding the portion (if any), of the gains for
20 the taxable year from sales or exchanges of capital assets,
21 which, under sections 652 and 662 (relating to inclusions
22 of amounts in gross income of beneficiaries of trusts), is
23 includible by the income beneficiaries as gain derived from
24 the sale or exchange of capital assets.”

1 (C) DEFINITIONS.—Section 1222 (relating to
2 other terms relating to capital gains and losses) is
3 amended to read as follows:

4 **“SEC. 1222. OTHER TERMS RELATING TO CAPITAL GAINS**
5 **AND LOSSES.**

6 “(a) TERMS APPLICABLE TO ALL TAXPAYERS.—For
7 purposes of this subtitle—

8 “(1) SHORT-TERM CAPITAL GAIN.—The term
9 ‘short-term capital gain’ means gain from the sale or
10 exchange of a capital asset held for not more than 6
11 months, if and to the extent such gain is taken into ac-
12 count in computing gross income.

13 “(2) SHORT-TERM CAPITAL LOSS.—The term
14 ‘short-term capital loss’ means loss from the sale or
15 exchange of a capital asset held for not more than 6
16 months, if and to the extent that such loss is taken into
17 account in computing taxable income.

18 “(3) NET SHORT-TERM CAPITAL GAIN.—The term
19 ‘net short-term capital gain’ means the excess of short-
20 term capital gains for the taxable year over the short-
21 term capital losses for such year.

22 “(4) NET SHORT-TERM CAPITAL LOSS.—The term
23 ‘net short-term capital loss’ means the excess of short-
24 term capital losses for the taxable year over the short-
25 term capital gains for such year.

1 “(b) TERMS APPLICABLE TO CORPORATIONS.—For
2 purposes of this subtitle, in the case of a corporation—

3 “(1) LONG-TERM CAPITAL GAIN.—The term ‘long-
4 term capital gain’ means gain from the sale or exchange
5 of a capital asset held for more than 6 months, if and to
6 the extent such gain is taken into account in computing
7 gross income.

8 “(2) LONG-TERM CAPITAL LOSS.—The term ‘long-
9 term capital loss’ means loss from the sale or exchange
10 of a capital asset held for more than 6 months, if and to
11 the extent that such loss is taken into account in com-
12 puting taxable income.

13 “(3) NET LONG-TERM CAPITAL GAIN.—The term
14 ‘net long-term capital gain’ means the excess of long-
15 term capital gains for the taxable year over the long-
16 term capital losses for such year.

17 “(4) NET LONG-TERM CAPITAL LOSS.—The term
18 ‘net long-term capital loss’ means the excess of long-
19 term capital losses for the taxable year over the long-
20 term capital gains for such year.

21 “(5) NET CAPITAL GAIN.—The term ‘net capital
22 gain’ means the excess of the gains from sales or ex-
23 changes of capital assets over the losses from such sales
24 or exchanges.

25 “(6) NET CAPITAL LOSS.—The term ‘net capital

1 loss' means the excess of the losses from sales or ex-
 2 changes of capital assets over the sum allowed under
 3 section 1211(a). For purposes of determining losses
 4 under this paragraph, amounts which are short-term
 5 capital losses under section 1212 shall be excluded.

6 “(c) ~~TERMS APPLICABLE TO TAXPAYERS OTHER~~
 7 ~~THAN CORPORATIONS.~~—For purposes of this subtitle, in
 8 the case of a taxpayer other than a corporation—

9 “(1) ~~CLASS B CAPITAL GAIN.~~—The term ‘class
 10 B capital gain’ means gain from the sale or exchange of
 11 a capital asset held for more than 6 months but not
 12 more than 2 years, if and to the extent such gain is
 13 taken into account in computing gross income.

14 “(2) ~~CLASS B CAPITAL LOSS.~~—The term ‘class B
 15 capital loss’ means loss from the sale or exchange of a
 16 capital asset held for more than 6 months but not more
 17 than 2 years, if and to the extent that such loss is taken
 18 into account in computing taxable income.

19 “(3) ~~CLASS A CAPITAL GAIN.~~—The term ‘class A
 20 capital gain’ means gain from the sale or exchange of a
 21 capital asset held for more than 2 years, if and to the
 22 extent such gain is taken into account in computing
 23 gross income.

24 “(4) ~~CLASS A CAPITAL LOSS.~~—The term ‘class A
 25 capital loss’ means loss from the sale or exchange of

1 a capital asset held for more than 2 years, if and to
 2 the extent that such loss is taken into account in com-
 3 puting taxable income.

4 “(5) NET CLASS B CAPITAL GAIN.—The term ‘net
 5 class B capital gain’ means the excess of class B capital
 6 gains for the taxable year over the class B capital losses
 7 for such year.

8 “(6) NET CLASS B CAPITAL LOSS.—The term ‘net
 9 class B capital loss’ means the excess of class B capital
 10 losses for the taxable year over the class B capital gains
 11 for such year.

12 “(7) NET CLASS A CAPITAL GAIN.—The term
 13 ‘net class A capital gain’ means the excess of class A
 14 capital gains for the taxable year over the class A capital
 15 losses for such year.

16 “(8) NET CLASS A CAPITAL LOSS.—The term ‘net
 17 class A capital loss’ means the excess of class A capital
 18 losses for the taxable year over the class A capital gains
 19 for such year.

20 “(9) ADJUSTED CLASS B CAPITAL GAIN.—The
 21 term ‘adjusted class B capital gain’ means the net class
 22 B capital gain for the taxable year reduced by losses
 23 which reduce such net gain as provided in subsection
 24 (d).

1 “~~(10)~~ ADJUSTED CLASS A CAPITAL GAIN.—The
2 term ‘adjusted class A capital gain’ means the net class
3 A capital gain for the taxable year reduced by losses
4 which reduce such net gain as provided in subsection
5 ~~(d)~~.”

6 “~~(d)~~ RULES FOR REDUCING NET CAPITAL GAINS BY
7 CAPITAL LOSSES.—For purposes of paragraphs ~~(9)~~ and
8 ~~(10)~~ of subsection ~~(c)~~ and for purposes of reducing any net
9 short-term capital gain, if for a taxable year a taxpayer
10 ~~(other than a corporation)~~ has a net short-term, net class
11 B, or net class A capital loss, such loss shall reduce any net
12 short-term, net class B, or net class A capital gain for such
13 year by applying paragraph ~~(1)~~, then paragraph ~~(2)~~, and
14 then paragraph ~~(3)~~:

15 “~~(1)~~ A net class A capital loss shall reduce first
16 any net class B capital gain and then any net short-
17 term capital gain.”

18 “~~(2)~~ A net class B capital loss shall reduce first
19 any net class A capital gain and then any net short-term
20 capital gain.”

21 “~~(3)~~ A net short-term capital loss shall reduce
22 first any net class B capital gain and then any net class
23 A capital gain.”

1 ~~(2)~~ PROPERTY USED IN THE TRADE OR BUSINESS
2 AND INVOLUNTARY CONVERSIONS.—

3 ~~(A)~~ Subsection ~~(a)~~ of section 1231 ~~(relating~~
4 to property used in a trade or business) is amended
5 to read as follows:

6 “~~(a)~~ GENERAL RULE.—If, during the taxable year—

7 “~~(1)~~ the recognized gains from sales or exchanges
8 of property used in the trade or business, plus

9 “~~(2)~~ the recognized gains from the compulsory or
10 involuntary conversion (as a result of destruction, in
11 whole or in part, theft or seizure, or an exercise of
12 the power of requisition or condemnation or the threat
13 or imminence thereof) of property used in the trade or
14 business and of capital assets held for more than 6
15 months into other property or money,

16 exceed the recognized losses from such sales, exchanges, and
17 conversions, each such gain or loss shall be considered as gain
18 or loss from the sale or exchange of a capital asset. If such
19 gains do not exceed such losses, such gains and losses shall
20 not be considered as gains and losses from sales or exchanges
21 of capital assets.”

22 ~~(B)~~ Section 1231 is amended by adding at the
23 end thereof the following new subsection:

1 ~~“(e) SPECIAL RULES.—~~

2 ~~“(1) GAINS AND LOSSES TAKEN INTO ACCOUNT.—~~

3 For purposes of subsection (a)—

4 ~~“(A) Any gain described in subsection (a)~~
5 ~~shall be included—~~

6 ~~“(i) only if and to the extent taken into~~
7 ~~account in computing gross income; and~~

8 ~~“(ii) only to the extent not required (by~~
9 ~~any provision of this subtitle other than this~~
10 ~~section) to be treated as gain from the sale or~~
11 ~~exchange of property which is neither a capital~~
12 ~~asset nor property described in this section.~~

13 ~~“(B) Losses described in subsection (a) shall~~
14 ~~be included only if and to the extent taken into~~
15 ~~account in computing taxable income; except that~~
16 ~~section 1211 shall not apply.~~

17 ~~“(C) Losses upon the destruction, in whole or~~
18 ~~in part, theft or seizure, or requisition or condem-~~
19 ~~nation of property used in the trade or business and~~
20 ~~held for more than 6 months, or of a capital asset~~
21 ~~held for more than 6 months, shall be considered~~
22 ~~losses from a compulsory or involuntary conversion.~~

23 ~~“(2) CERTAIN LOSSES FROM CASUALTY OR~~
24 ~~THEFT.—In the case of any property used in the trade~~
25 ~~or business, and in the case of any capital asset held for~~

more than 6 months and held for the production of income, subsection (a) shall not apply to any loss, in respect of which the taxpayer is not compensated for by insurance in any amount, arising from fire, storm, shipwreck, or other casualty or from theft.

~~“(3) GAINS AND LOSSES TREATED AS CLASS B GAINS AND LOSSES.—~~In the case of a taxpayer other than a corporation, gain or loss—

~~“(A) from a sale, exchange, or conversion of property to which subsection (b) (2), (3), or (4) applies, and~~

~~“(B) which by reason of subsection (a) is considered as gain or loss from the sale or exchange of a capital asset,~~

shall be considered as class B capital gain or loss whether or not such property was held for more than 2 years.”

~~(3) CERTAIN DISTRIBUTIONS UNDER EMPLOYEES TRUSTS AND ANNUITY PLANS.—~~

~~(A) DISTRIBUTION UNDER EMPLOYEES' TRUSTS.—~~Section 402(a) (relating to taxability of beneficiary of exempt trust) is amended—

~~(i) by adding at the end of paragraph (1) the following new sentence: “Any gain on the subsequent sale or other disposition of any such security by the distributee (or by any~~

1 other person in whose hands the basis of such
2 security is determined by reference to the basis
3 of the security in the hands of the distributee)
4 shall, to the extent of the amount of such net
5 unrealized appreciation attributable to such
6 security, be considered a gain from the sale
7 or exchange of a capital asset held for more than
8 6 months but not more than 2 years.”;

9 (ii) by adding immediately before the pe-
10 riod at the end of the first sentence of paragraph
11 (2) the words “but not more than 2 years”;
12 and

13 (iii) by adding immediately before the last
14 sentence of paragraph (2) the following new
15 sentence: “Any gain on the subsequent sale
16 or other disposition of any such security by
17 the distributee (or by any other person in
18 whose hands the basis of such security is de-
19 termined by reference to the basis of the secu-
20 rity in the hands of the distributee) shall, to
21 the extent of the amount of such net unrealized
22 appreciation attributable to such security, be
23 considered a gain from the sale or exchange
24 of a capital asset held for more than 6 months
25 but not more than 2 years.”

1 ~~(B) DISTRIBUTIONS UNDER EMPLOYEE AN-~~
 2 ~~NUITIES.—Section 403(a)(2)(A) (relating to~~
 3 ~~capital gains treatment for certain distributions) is~~
 4 ~~amended by adding immediately before the period~~
 5 ~~at the end of the first sentence the words “but not~~
 6 ~~more than 2 years”.~~

7 ~~(C) EFFECTIVE DATE.—~~

8 ~~(i) The amendments made by subpara-~~
 9 ~~graphs (A)(ii) and (B) shall apply with re-~~
 10 ~~spect to distributions or amounts paid in tax-~~
 11 ~~able years of the distributees beginning after~~
 12 ~~December 31, 1963.~~

13 ~~(ii) The amendments made by subpara-~~
 14 ~~graphs (A)(i) and (iii) shall apply with re-~~
 15 ~~spect to securities which are sold or otherwise~~
 16 ~~disposed of in taxable years beginning after~~
 17 ~~December 31, 1963.~~

18 ~~(4) SALE OR EXCHANGE OF PATENTS.—Subsec-~~
 19 ~~tion (a) of section 1235 (relating to the sale or ex-~~
 20 ~~change of patents) is amended by adding at the end~~
 21 ~~thereof the following new sentences:~~

22 ~~“In the case of a holder described in subsection (b)(1),~~
 23 ~~any gain or loss on such a transfer shall be treated as class~~
 24 ~~B capital gain or loss. In the case of a holder described in~~
 25 ~~subsection (b)(2), any gain or loss on such a transfer shall~~

1 be treated as class A, or class B, capital gain or loss depend-
 2 ing on the period for which the property was held (or
 3 deemed held).”

4 ~~(5)~~ EMPLOYEE TERMINATION PAYMENTS.—See
 5 tion 1240 (relating to taxability to employee of termina-
 6 tion payments) is amended by striking out “6 months”
 7 and inserting in lieu thereof “6 months but not more
 8 than 2 years”.

9 ~~(b)~~ UNLIMITED CAPITAL LOSS CARRYOVER.—Section
 10 1212 (relating to capital loss carryover) is amended—

11 ~~(1)~~ by striking out “If for any taxable year the tax-
 12 payer” and inserting in lieu thereof:

13 “~~(a)~~ CORPORATIONS.—If for any taxable year a
 14 corporation”; and

15 ~~(2)~~ by adding the following new subsection:

16 “~~(b)~~ OTHER TAXPAYERS.—

17 ~~(1)~~ To the extent, for any taxable year, a tax-
 18 payer, other than a corporation, has a net short-term
 19 net class B, or net class A capital loss which does not
 20 reduce capital gains under the rules provided in section
 21 1222(d), such loss, reduced as provided in paragraph
 22 ~~(2)~~, shall be carried forward and treated in the suc-
 23 ceeding taxable year as a short-term, class B, or class A

1 capital loss, as the case may be, sustained in such suc-
2 ceeding year.

3 “~~(2)~~ An amount equal to the excess of the sum
4 allowable under section 1211(b) over the gains from
5 sales or exchanges of capital assets for the taxable year
6 shall reduce, in order, any net short-term, class B, or
7 class A capital loss for the taxable year which does
8 not reduce capital gains for such year under the rules
9 provided in section 1222(d).

10 “~~(3)~~ For purposes of this subsection, a net capital
11 loss for a taxable year beginning before January 1,
12 1964, shall be determined under the applicable law
13 relating to the computation of capital gains and losses
14 in effect before such date, and the amount of any such
15 capital loss so determined which such applicable law
16 allows to be carried over to the first taxable year of the
17 taxpayer beginning after December 31, 1963, shall be
18 treated as a short-term capital loss occurring in such
19 taxable year.”

20 ~~(c)~~ TECHNICAL AMENDMENTS.—

21 ~~(1)~~ Section 172(d)(2)(B) (relating to net op-
22 erating loss deduction) is amended by striking out
23 “long term”.

1 ~~(2)~~ Section ~~333(c)(2)~~ ~~(relating to noneorporate~~
 2 shareholders of eertain liquidating corporations) is
 3 amended by striking out “short term or long term capital
 4 gain,” and inserting in lieu thereof “short term, class
 5 A, or class B capital gain,”.

6 ~~(3)~~ Section ~~341(a)~~ ~~(relating to collapsible cor-~~
 7 porations) is amended by striking out “6 months” and
 8 inserting in lieu thereof “6 months but not more than
 9 2 years or held for more than 2 years, as the case may
 10 be,”.

11 ~~(4)~~ Section ~~584(e)(1)~~ ~~(relating to common trust~~
 12 funds) is amended—

13 ~~(A)~~ by striking out in subparagraph ~~(B)~~
 14 wherever it appears “6 months” and inserting in
 15 lieu thereof “6 months but not more than 2 years”,
 16 and

17 ~~(B)~~ by redesignating subparagraph ~~(C)~~ as
 18 subparagraph ~~(D)~~ and by inserting after sub-
 19 paragraph ~~(B)~~ the following new subparagraph:

20 “~~(C)~~ as part of its gains and losses from sales
 21 or exchanges of capital assets held for more than 2
 22 years, its proportionate share of the gains and losses
 23 of the common trust fund from sales or exchanges of
 24 capital assets held for more than 2 years;”.

25 ~~(5)~~ Section ~~642(e)~~ ~~(relating to special rules for~~

1 credits and deductions) is amended by striking out
 2 "6 months," and inserting in lieu thereof "6 months but
 3 not more than 2 years or held for more than 2 years,
 4 as the case may be,".

5 ~~(6)~~ Section 702(a)(2) ~~(relating to income and~~
 6 ~~credits of partners)~~ is amended by striking out "6
 7 months," and inserting in lieu thereof "6 months but
 8 not more than 2 years or held for more than 2 years, as
 9 the case may be,".

10 ~~(7)(A)~~ Section 852 ~~(relating to taxation of reg-~~
 11 ~~ulated investment companies and their shareholders)~~
 12 is amended by striking out subparagraphs ~~(B)~~ and ~~(C)~~
 13 of subsection ~~(b)(3)~~ and inserting in lieu thereof the
 14 following:

15 ~~"(B) TREATMENT OF CAPITAL GAIN DIVI-~~
 16 ~~DENDS BY SHAREHOLDERS.—~~A capital gain divi-
 17 dend shall be treated by shareholders, other than
 18 corporations, as a class A or class B capital gain to
 19 the extent so designated by the company. Share-
 20 holders which are corporations shall treat a capital
 21 gain dividend as a long-term capital gain.

22 ~~"(C) DEFINITION OF CAPITAL GAIN DIVI-~~
 23 ~~DEND.—~~For purposes of this part, a capital gain divi-
 24 dend is any dividend, or part thereof, which is desig-
 25 nated by the company in a written notice mailed to

1 its shareholders not later than 30 days after the close
2 of its taxable year, as a distribution of class A
3 or class B capital gain. In the case of a share-
4 holder which is a corporation, if the aggregate
5 amount designated as a capital gain dividend with
6 respect to a taxable year of the company (including
7 capital gains dividends paid after the close of the
8 taxable year described in section 855) is greater
9 than the excess of the net long-term capital gain over
10 the net short-term capital loss of the taxable year,
11 the portion of each distribution which shall be a
12 capital gain dividend shall be only that proportion
13 of the amount so designated which such excess of
14 the net long-term capital gain over the net short-
15 term capital loss bears to the aggregate amount so
16 designated. In the case of a shareholder other than
17 a corporation, if the aggregate amount designated
18 as class A capital gain, or as class B capital gain
19 with respect to a taxable year of the company (in-
20 cluding capital gains dividends paid after the close
21 of the taxable year described in section 855) is
22 greater than the adjusted class A, or adjusted class
23 B capital gain, respectively—

24 “(i) the portion of each distribution which
25 shall be treated as a class A capital gain shall

1 be only that proportion of the amount so desig-
 2 nated as class A capital gain which the ad-
 3 justed class A capital gain bears to the aggre-
 4 gate amount so designated, and

5 “(ii) the portion of each distribution which
 6 shall be treated as a class B capital gain shall
 7 be only that proportion of the amount so desig-
 8 nated as class B capital gain which the adjusted
 9 class B capital gain bears to the aggregate
 10 amount so designated.

11 For purposes of the preceding sentence, the adjusted
 12 class A or adjusted class B capital gain shall be
 13 computed as though the company were a taxpayer
 14 other than a corporation except that section
 15 1212(a) shall apply in lieu of section 1212(b).”

16 (B) Section 852(b)(3)(D) is amended by strik-
 17 ing out clauses (i), (ii), and (iii) and inserting in lieu
 18 thereof the following:

19 “(i) Every shareholder of a regulated
 20 investment company at the close of the com-
 21 pany’s taxable year shall, in the case of a cor-
 22 poration, in computing its long-term capital
 23 gains, and, in the case of a shareholder other
 24 than a corporation, in computing his class A and
 25 class B capital gains, include in his return for his

1 taxable year in which the last day of the com-
2 pany's taxable year falls, such amounts as the
3 company shall designate in respect of such
4 shares in a written notice mailed to its share-
5 holders at any time prior to the expiration of
6 30 days after the close of its taxable year, but the
7 amount so includible by any shareholder shall
8 not exceed that part of the amount subjected to
9 tax in subparagraph (A) which he would have
10 received if all of such amount had been dis-
11 tributed as capital gain dividends by the com-
12 pany to the holders of such shares at the close
13 of its taxable year.

14 “(ii) For purposes of this title, every such
15 shareholder shall be deemed to have paid, for
16 his taxable year under clause (i), the tax of
17 25 percent imposed by subparagraph (A) on
18 the amounts required by this subparagraph to
19 be included in respect of such shares, in the case
20 of a corporation, in computing its long-term
21 capital gains, and, in the case of a shareholder
22 other than a corporation, in computing his class
23 A and class B capital gains, for that year; and
24 such shareholder shall be allowed credit or re-

1 fund, as the case may be, for the tax so deemed
2 to have been paid by him.

3 “(iii) The adjusted basis of such shares in
4 the hands of the shareholder shall be increased
5 by 75 percent of the amount required by this
6 subparagraph to be included in computing his
7 capital gains.”

8 ~~(C)~~ Section 852(b)(4) is amended to read as
9 follows:

10 “~~(4)~~ LOSS ON SALE OR EXCHANGE OF STOCK HELD
11 LESS THAN 31 DAYS. If, under subparagraph ~~(B)~~ or
12 ~~(D)~~ of paragraph ~~(3)~~ a shareholder of a regulated in-
13 vestment company is required, with respect to any share,
14 to treat any amount as long term, class A, or class B
15 capital gain, and such share is held by the taxpayer for
16 less than 31 days, then any loss on the sale or exchange
17 of such share shall—

18 “~~(A)~~ in the case of a corporation, to the extent
19 of such long-term capital gain, be treated as loss
20 from the sale or exchange of a capital asset held for
21 more than 6 months, or

22 “~~(B)~~ in the case of a shareholder other than a
23 corporation—

24 “(i) to the extent of such class A capital

1 gain, be treated as loss from the sale or ex-
2 change of a capital asset held for more than
3 2 years, and

4 “(ii) to the extent of such class B capital
5 gain, be treated as loss from the sale or ex-
6 change of a capital asset held for more than 6
7 months but not more than 2 years.

8 If there is a loss on the sale or exchange of such
9 share which is less than the sum of such class A and
10 class B capital gains, then a portion of such loss
11 equal to the proportion which such class A capital
12 gain bears to the sum of such class A and class B
13 capital gains shall be a class A capital loss; and
14 the remainder of such loss shall be a class B capital
15 loss.

16 For purposes of this paragraph, the rules of section
17 ~~246(c)(3)~~ shall apply in determining whether any
18 share of stock has been held for less than 31 days;
19 except that ‘30 days’ shall be substituted for ‘15 days’
20 in subparagraph (B) of section ~~246(c)(3)~~.”

21 ~~(8)(A)~~ Section 857 (relating to the taxation of
22 real estate investment trusts and their beneficiaries) is
23 amended by striking out subparagraphs (B) and (C)
24 of subsection (b)(3) and inserting in lieu thereof the
25 following:

1 “(B) TREATMENT OF CAPITAL GAIN DIVI-
2 DENDS BY SHAREHOLDERS.—A capital gain divi-
3 dend shall be treated by the shareholders or holders
4 of beneficial interests, other than corporations, as a
5 class A or class B capital gain to the extent so desig-
6 nated by the real estate investment trust. Share-
7 holders or holders of beneficial interests which are
8 corporations shall treat a capital gain dividend as a
9 long-term capital gain.

10 “(C) DEFINITION OF CAPITAL GAIN DIVI-
11 DEND.—For purposes of this part, a capital gain
12 dividend is any dividend, or part thereof, which
13 is designated by the real estate investment trust
14 in a written notice mailed to its shareholders or
15 holders of beneficial interests at any time before the
16 expiration of 30 days after the close of its taxable
17 year as a distribution of class A or class B capital
18 gain. In the case of a shareholder or holder of
19 beneficial interest which is a corporation, if the ag-
20 gregate amount designated as a capital gain divi-
21 dend with respect to a taxable year of the trust (in-
22 cluding capital gain dividends paid after the close
23 of the taxable year described in section 858) is
24 greater than the excess of the net long-term capital

1 gain over the net short-term capital loss of the tax-
 2 able year, the portion of each distribution which
 3 shall be a capital gain dividend shall be only that
 4 proportion of the amount so designated which such
 5 excess of the net long-term capital gain over the
 6 net short-term capital loss bears to the aggregate
 7 amount so designated. In the case of a shareholder
 8 or holder of a beneficial interest other than a cor-
 9 poration, if the aggregate amount designated as
 10 class A or as class B capital gain with respect to a
 11 taxable year of the trust (including capital gains
 12 dividends paid after the close of the taxable year
 13 described in section 858) is greater than the ad-
 14 justed class A or adjusted class B capital gain, re-
 15 spectively—

16 “(i) the portion of each distribution which
 17 shall be treated as a class A capital gain shall
 18 be only that proportion of the amount so desig-
 19 nated as class A capital gain which the adjusted
 20 class A capital gain bears to the aggregate
 21 amount so designated, and

22 “(ii) the portion of each distribution which
 23 shall be treated as a class B capital gain shall
 24 be only that proportion of the amount so desig-
 25 nated as class B capital gain which the ad-

justed class B capital gain bears to the aggregate amount so designated.

For purposes of the preceding sentence, the adjusted class A or class B capital gain shall be computed as though the trust were a taxpayer other than a corporation except that section 1212(a) shall apply in lieu of section 1212(b)."

(B) Section 857 is amended by striking out paragraph (4) of subsection (b) and inserting in lieu thereof the following:

"(4) LOSS ON SALE OR EXCHANGE OF STOCK HELD LESS THAN 31 DAYS.—If, under subparagraph (B) of paragraph (3) a shareholder of, or a holder of a beneficial interest in, a real estate investment trust is required, with respect to any share or beneficial interest, to treat any amount as a long-term, class A, or class B capital gain, and such share or interest is held by the taxpayer for less than 31 days, then any loss on the sale or exchange of such share or interest shall—

"(A) in the case of a corporation, to the extent of such long-term capital gain, be treated as loss from the sale or exchange of a capital asset held for more than 6 months, or

"(B) in the case of a shareholder other than a corporation—

1 ~~“(i) to the extent of such class A capital~~
 2 ~~gain, be treated as loss from the sale or exchange~~
 3 ~~of a capital asset held for more than 2 years,~~
 4 ~~and~~

5 ~~“(ii) to the extent of such class B capital~~
 6 ~~gain, be treated as loss from the sale or ex-~~
 7 ~~change of a capital asset held for more than 6~~
 8 ~~months but not more than 2 years.~~

9 If there is a loss on the sale or exchange of such
 10 share or interest which is less than the sum of such
 11 class A and class B capital gains, then a portion of
 12 such loss equal to the proportion which such class
 13 A capital gain bears to the sum of such class A
 14 and class B capital gains shall be a class A capital
 15 loss; and the remainder of such loss shall be a class
 16 B capital loss.

17 For purposes of this paragraph, the rules of section
 18 ~~246(c)(3)~~ shall apply in determining whether any
 19 share of stock or beneficial interest has been held for
 20 less than 31 days; except that ‘30 days’ shall be sub-
 21 stituted for ‘15 days’ in subparagraph ~~(B)~~ of section
 22 ~~246(c)(3).~~”

23 ~~(9) The last sentence of section 1232(a)(2)(A)~~
 24 ~~(relating to bonds and other evidences of indebtedness)~~

1 is amended to read as follows: "Gain in excess of such
 2 amount shall, in the case of a corporation, be considered
 3 gain from the sale or exchange of a capital asset held
 4 more than 6 months or in the case of a taxpayer other
 5 than a corporation, be considered gain from the sale or
 6 exchange of a capital asset held for more than 6 months
 7 but not more than 2 years or held for more than 2 years,
 8 as the case may be."

9 ~~(10) (A)~~ Subsection ~~(b)~~ of section 1233 (relating
 10 to gains and losses from short sales) is amended to read
 11 as follows:

12 "~~(b)~~ ~~SHORT TERM AND CLASS B GAINS AND HOLD-~~
 13 ~~ING PERIOD.~~—If gain or loss from a short sale is considered
 14 as gain or loss from the sale or exchange of a capital asset
 15 under subsection ~~(a)~~ and if on the date of such short sale
 16 substantially identical property has been held by the tax-
 17 payer—

18 "~~(1)~~ for not more than 6 months (determined
 19 without regard to the effect, under the second sentence
 20 of this subsection, of such short sale on the holding
 21 period), or if substantially identical property is acquired
 22 by the taxpayer after such short sale and on or before
 23 the date of the closing thereof, any gain on the closing
 24 of such short sale shall be considered as a gain on the

1 sale or exchange of a capital asset held for not more than
 2 6 months (notwithstanding the period of time any
 3 property used to close such short sale has been held); or
 4 “(2) in the case of a taxpayer other than a cor-
 5 poration, for more than 6 months but not more than 2
 6 years (determined without regard to the effect, under
 7 the second sentence of this subsection, of such short
 8 sale on the holding period); any gain on the closing of
 9 such short sale shall be considered as a gain on the sale
 10 or exchange of a capital asset held for more than 6
 11 months but not more than 2 years (notwithstanding
 12 the period of time any property used to close such short
 13 sale has been held).

14 The holding period of such substantially identical property
 15 shall be considered to begin (notwithstanding section 1223,
 16 relating to the holding period of property) on the date of the
 17 closing of the short sale, or on the date of a sale, gift, or
 18 other disposition of such property, whichever date occurs
 19 first. The preceding sentence shall apply to such substan-
 20 tially identical property in the order of the dates of the ac-
 21 quisition of such property, but only to so much of such
 22 property as does not exceed the quantity sold short. For
 23 purposes of this subsection, the acquisition of an option to sell
 24 property at a fixed price shall be considered as a short sale,

1 and the exercise or failure to exercise such option shall be
2 considered as a closing of such short sale."

3 ~~(B)~~ Subsection ~~(d)~~ of section 1233 is amended to
4 read as follows:

5 ~~"(d) LONG-TERM, CLASS A, AND CLASS B LOSSES.—~~

6 If on the date of such short sale substantially identical prop-
7 erty has been held by the taxpayer—

8 ~~"(1) In the case of a corporation, for more than 6~~
9 ~~months, any loss on the closing of such short sale shall~~
10 ~~be considered as a loss on the sale or exchange of a~~
11 ~~capital asset held for more than 6 months (notwithstand-~~
12 ~~ing the period of time any property used to close such~~
13 ~~short sale has been held, and notwithstanding section~~
14 ~~1234).~~

15 ~~"(2) In the case of a taxpayer other than a corpo-~~
16 ~~ration—~~

17 ~~"(A) for more than 2 years, any loss on the~~
18 ~~closing of such short sale shall be considered as a~~
19 ~~loss on the sale or exchange of a capital asset held~~
20 ~~for more than 2 years (notwithstanding the period~~
21 ~~of time any property used to close such short sale~~
22 ~~has been held, and notwithstanding section 1234),~~

23 or

24 ~~"(B) for more than 6 months but not more~~

1 than 2 years, any loss on the closing of such short
 2 sale shall be considered as a loss on the sale or ex-
 3 change of a capital asset held for more than 6
 4 months but not more than 2 years (notwithstanding
 5 the period of time any property used to close such
 6 short sale has been held, and notwithstanding
 7 section 1234).”

8 (C) Paragraph (1) of section 1233(e) is amended
 9 to read as follows:

10 “(1) Subsection (b) or (d) shall not apply to the
 11 gain or loss, respectively, on any quantity of property
 12 used to close such short sale which is in excess of the
 13 quantity of the substantially identical property referred
 14 to in the applicable subsection. In the case of a tax-
 15 payer other than a corporation—

16 “(A) subsection (b)(1) or (d)(2)(A)
 17 shall not apply to the gain or loss, respectively, on
 18 any quantity of property used to close such short
 19 sale which is in excess of the quantity of the
 20 substantially identical property to which either sub-
 21 section (b)(1) or (d)(2)(A) applies (deter-
 22 mined without regard to this subparagraph), and

23 “(B) subsection (b)(2) or (d)(2)(B) shall
 24 apply only to the gain or loss, respectively, on the
 25 excess described in subparagraph (A), but only

1 to the extent of the quantity of the substantially
 2 identical property to which either subsection ~~(b)~~
 3 ~~(2)~~ or ~~(d)(2)(B)~~ applies ~~(determined without~~
 4 ~~regard to this subparagraph).~~”

5 ~~(D)~~ Section 1233 ~~(e)(4)(A)~~ is amended by strik-
 6 ing out “for not more than 6 months,” in clause ~~(i)~~
 7 and inserting in lieu thereof “in the case of a corporation,
 8 for not more than 6 months, or in the case of a taxpayer
 9 other than a corporation, for not more than 2 years,”
 10 and by striking out “subsection ~~(b)(2)~~” in the lan-
 11 guage following clause ~~(ii)~~ and inserting in lieu thereof
 12 “the second and third sentences of subsection ~~(b)~~”.

13 ~~(E)~~ Section 1233 ~~(f)~~ is amended by striking out
 14 “subsection ~~(b)(2)~~” each place it appears and inserting
 15 in lieu thereof “the second and third sentences of sub-
 16 section ~~(b)~~”.

17 ~~(11)(A)~~ Section 1247 ~~(relating to election by~~
 18 ~~foreign investment companies to distribute income cur-~~
 19 ~~rently)~~ is amended by striking out subparagraph ~~(B)~~
 20 of subsection ~~(a)(1)~~ and inserting in lieu thereof the
 21 following:

22 “~~(B)~~ designate in a written notice mailed to
 23 its shareholders at any time before the expiration of
 24 45 days after the close of its taxable year the pro
 25 rata amount for the taxable year of the adjusted

1 class A and adjusted class B capital gain (deter-
 2 mined as though such corporation were a taxpayer
 3 other than a corporation except that section 1212
 4 (a) shall apply in lieu of section 1212(b)); and
 5 the portions thereof which are being distributed;
 6 and”

7 (B) Clause (i) of section 1247(a)(2)(A) is
 8 amended to read as follows:

9 “(i) the adjusted class A and adjusted
 10 class B capital gain referred to in paragraph
 11 (1)(B);”

12 (C) Subparagraph (C) of section 1247(a)(2) is
 13 amended to read as follows:

14 “(C) CARRYOVER OF CAPITAL LOSSES FROM
 15 NONELECTION YEARS DENIED.—In computing the
 16 adjusted class A and adjusted class B capital gains
 17 referred to in paragraph (1)(B), section 1212 shall
 18 not apply to losses incurred in or with respect to
 19 taxable years before the first taxable year to which
 20 the election applies.”

21 (D) Section 1247(c)(2) is amended by striking
 22 out “his long-term capital gains” and inserting in lieu
 23 thereof “in the case of a shareholder which is a corpora-
 24 tion, its long-term capital gains, and in the case of a

1 shareholder other than a corporation, his class A and
 2 class B capital gains”;

3 ~~(E)~~ Subsection ~~(d)~~ of section 1247 is amended
 4 to read as follows:

5 “~~(d)~~ TREATMENT OF DISTRIBUTED AND UNDIS-
 6 TRIBUTED CAPITAL GAINS BY A QUALIFIED SHARE-
 7 HOLDER.—Every qualified shareholder of a foreign invest-
 8 ment company for any taxable year of such company with
 9 respect to which an election pursuant to subsection ~~(a)~~ is in
 10 effect shall—

11 “~~(1)~~ if such shareholder is a taxpayer other than
 12 a corporation—

13 “~~(A)~~ include in computing his class A or class
 14 B capital gain for his taxable year in which re-
 15 ceived, his pro rata share of the distributed portion
 16 of the adjusted class A or adjusted class B capital
 17 gain, respectively, and

18 “~~(B)~~ include in computing his class A or class
 19 B capital gain for his taxable year in which or with
 20 which the taxable year of such company ends, his
 21 pro rata share of the undistributed portion of the
 22 adjusted class A or adjusted class B capital gain,
 23 respectively, or

1 ~~“(2) if such shareholder is a corporation, include~~
 2 ~~in computing its long-term capital gains—~~

3 ~~“(A) for its taxable year in which received,~~
 4 ~~its pro rata share of the distributed portion of the~~
 5 ~~sum of the adjusted class A and adjusted class B~~
 6 ~~capital gains; and~~

7 ~~“(B) for its taxable year in which or with~~
 8 ~~which the taxable year of such company ends,~~
 9 ~~its pro rata share of the undistributed portion of the~~
 10 ~~sum of the adjusted class A and adjusted class B~~
 11 ~~capital gains.~~

12 For purposes of this subsection the adjusted class A and
 13 adjusted class B capital gains shall be determined as pre-
 14 vided in subsection ~~(a)(1)(B).~~”

15 ~~(F)~~ Subsection ~~(i)~~ of section 1247 is amended
 16 to read as follows:

17 ~~“(i) LOSS ON SALE OR EXCHANGE OF CERTAIN~~
 18 ~~STOCK.—~~

19 ~~“(1) SHAREHOLDERS OTHER THAN CORPORA-~~
 20 ~~TIONS.—If, under this section, any qualified shareholder~~
 21 ~~other than a corporation treats any amount designated~~
 22 ~~under subsection (a)(1)(B) with respect to a share~~
 23 ~~of stock as—~~

24 ~~“(A) class B capital gain and such share is~~
 25 ~~held by the taxpayer for 6 months or less, then~~

1 any loss on the sale or exchange of such share shall;
2 to the extent of the amount treated as class B capital
3 gain, be treated as a loss from the sale or exchange
4 of a capital asset held for more than 6 months but
5 not more than 2 years;

6 “(B) class A capital gain and such share is
7 held by the taxpayer for 2 years or less, then any
8 loss on the sale or exchange of such share shall, to
9 the extent of the amount treated as class A capital
10 gain, be treated as a loss from the sale or exchange
11 of a capital asset held for more than 2 years; or

12 “(C) both class A and class B capital gains
13 and such share is held by the taxpayer for 6 months
14 or less and there is a loss on the sale or exchange of
15 such stock which is less than the sum of the amount
16 so designated, then an amount of such loss shall be
17 treated as a loss from the sale or exchange of a
18 capital asset held for more than 6 months but not
19 more than 2 years which bears the same relation
20 to such loss as the class B capital gain so designated
21 bears to the sum of such class B and the class A
22 capital gains so designated; and the remainder of
23 such loss shall be treated as a loss from the sale or
24 exchange of a capital asset held for more than
25 2 years.

1 ~~“(2) CORPORATE SHAREHOLDERS.—~~If, under this
 2 section, any qualified shareholder which is a corpora-
 3 tion treats any amount designated under subsection ~~(a)~~
 4 ~~(1) (B)~~ with respect to a share of stock as long-term
 5 capital gain and such share is held by the taxpayer for
 6 6 months or less, then any loss on the sale or exchange
 7 of such share shall, to the extent of the amount treated
 8 as long-term capital gain, be treated as a loss from
 9 the sale or exchange of a capital asset held for more than
 10 6 months.”

11 ~~(12) Section 1248(b) (relating to gain from cer-~~
 12 ~~tain sales or exchanges of stock in certain foreign corpo-~~
 13 ~~rations)~~ is amended by striking out “6 months,” each
 14 place it appears and inserting in lieu thereof “6 months
 15 but not more than 2 years or held for more than 2 years,
 16 as the case may be,”.

17 ~~(13) Section 1375(a) (relating to special rules~~
 18 ~~applicable to capital gains of electing small business cor-~~
 19 ~~porations)~~ is amended to read as follows:

20 ~~“(a) CAPITAL GAINS.—~~

21 ~~“(1) TREATMENT IN HANDS OF SHAREHOLDERS.—~~
 22 The amount includible in the gross income of a share-
 23 holder as dividends ~~(including amounts treated as divi-~~
 24 ~~dends under section 1373(b))~~ from an electing small
 25 business corporation during any taxable year of the cor-

1 poration, to the extent such amount is a distribution of
 2 property out of earnings and profits of the taxable year
 3 as specified in section 316(a)-(2), shall be treated (i)
 4 as class A capital gain to the extent of the shareholder's
 5 pro rata share of the adjusted class A capital gain
 6 (computed by the corporation as though it were a
 7 taxpayer other than a corporation except that section
 8 1212(b)-(2) shall not apply) for such taxable year,
 9 and (ii) as class B capital gain to the extent of the
 10 shareholder's pro rata share of the adjusted class B
 11 capital gain (computed by the corporation as though
 12 it were a taxpayer other than a corporation except
 13 that section 1212(b)-(2) shall not apply) for such
 14 taxable year. For purposes of this paragraph, the
 15 adjusted class A capital gain or the adjusted class B
 16 capital gain shall be deemed not to exceed an amount
 17 equal to that portion of the corporation's taxable income
 18 (computed as provided in section 1373(d)) for
 19 the taxable year which bears the same ratio to such
 20 taxable income as such adjusted class A capital gain or
 21 such adjusted class B capital gain (determined without
 22 regard to the provisions of this sentence) bears to the
 23 sum of such adjusted class A and adjusted class B capital
 24 gains.

25 “(2) DETERMINATION OF SHAREHOLDER'S PRO

1 ~~RATA SHARE.~~—A shareholder's pro rata share of the
 2 adjusted class A or adjusted class B capital gain (com-
 3 puted as provided in paragraph ~~(1)~~) for any taxable
 4 year shall be an amount which bears the same ratio to
 5 such adjusted class A capital gain or such adjusted class
 6 B capital gain as the amount of dividends described in
 7 paragraph ~~(1)~~ includible in the shareholder's gross
 8 income bears to the entire amount of dividends described
 9 in paragraph ~~(1)~~ includible in the gross income of all
 10 shareholders."

11 ~~(d) EFFECTIVE DATE.~~—

12 ~~(1) GENERAL RULE.~~—Except as otherwise specifi-
 13 cally provided, and except as provided by paragraph
 14 ~~(2)~~, the amendments made by this section shall apply
 15 to taxable years beginning after December 31, 1963.

16 ~~(2) TRANSITION RULES.~~—

17 ~~(A) DISTRIBUTIONS OF CAPITAL GAINS.~~—

18 ~~(i)~~ If a taxpayer, other than a corporation,
 19 is required to include as capital gain in his gross
 20 income for a taxable year beginning after
 21 December 31, 1963, an amount attributable
 22 to sales or exchanges of capital assets held
 23 for more than 6 months and such gain was
 24 realized in a taxable year beginning before
 25 January 1, 1964, by a person described in

1 clause (iii), such amount shall be treated by
 2 such taxpayer as class B capital gain.

3 (ii) If a taxpayer, other than a corpora-
 4 tion, is required to include as capital gain in
 5 his gross income for a taxable year beginning
 6 before January 1, 1964, an amount attributable
 7 to sales or exchanges of capital assets held for
 8 more than 6 months and such gain was realized
 9 in a taxable year beginning after December
 10 31, 1963, by a person described in clause (iii),
 11 such amount shall be treated by such taxpayer
 12 as long-term capital gain.

13 (iii) This subparagraph applies in respect
 14 of a regulated investment company or a real
 15 estate investment trust to which subchapter M
 16 of chapter 1 of the Internal Revenue Code of
 17 1954 applies, a foreign investment company to
 18 which section 1247 of such Code applies, an
 19 electing small business corporation to which
 20 subchapter S of chapter 1 of such Code applies,
 21 a common trust fund to which section 584
 22 applies, a partnership, an estate, and a trust.

23 (B) LOSS ON SALE OR EXCHANGE OF CER-
 24 TAIN STOCK.—If a shareholder (or a holder of a

1 beneficial interest); other than a corporation, in a
2 regulated investment company, real estate invest-
3 ment trust, or foreign investment company is re-
4 quired for a taxable year beginning before January
5 1, 1964, under section 852(b)(3) (B) or (D),
6 section 857(b)(3)(B), or section 1247(d), to
7 treat an amount with respect to a share (or bene-
8 ficial interest), as a long-term capital gain, and
9 such share (or beneficial interest) is held by the
10 taxpayer for less than 31 days (6 months or less in
11 case of a shareholder of a foreign investment
12 company); then a loss on the sale or exchange of
13 such share in a taxable year of such shareholder
14 beginning after December 31, 1963, shall to the
15 extent of such long-term capital gain, be treated as
16 loss from the sale or exchange of a capital asset
17 held for more than 6 months but not more than
18 2 years.

19 (C) REGULATORY AUTHORITY.—The Secre-
20 tary or his delegate shall prescribe such regulations
21 as may be necessary to carry out the purposes of
22 this subsection.

23 (D) MEANING OF TERMS.—Terms used in this
24 subsection shall have the same meaning as when

1 used in chapter 1 of the Internal Revenue Code of
2 1954.

3 SEC. (167)~~220~~ 233. GAIN FROM DISPOSITIONS OF CERTAIN
4 DEPRECIABLE REALTY.

5 (a) GAIN FROM DISPOSITIONS OF CERTAIN DEPRE-
6 CIABLE REALTY.—Part IV of subchapter P of chapter 1
7 (relating to special rules for determining capital gains and
8 losses) is amended by adding at the end thereof the follow-
9 ing new section:

10 “SEC. 1250. GAIN FROM DISPOSITIONS OF CERTAIN DEPRE-
11 CIABLE REALTY.

12 “(a) GENERAL RULE.—

13 “(1) ORDINARY INCOME.—Except as otherwise
14 provided in this section, if section 1250 property is dis-
15 posed of after December 31, 1963, the applicable per-
16 centage of the lower of—

17 “(A) the additional depreciation (as defined in
18 subsection (b) (1)) in respect of the property, or

19 “(B) the excess of—

20 “(i) the amount realized (in the case of a
21 sale, exchange, or involuntary conversion), or
22 the fair market value of such property (in the
23 case of any other disposition), over

24 “(ii) the adjusted basis of such property,

1 shall be treated as gain from the sale or ex-
2 change of property which is neither a capital
3 asset nor property described in section 1231.
4 Such gain shall be recognized notwithstanding
5 any other provision of this subtitle.

6 “(2) APPLICABLE PERCENTAGE.—For purposes of
7 paragraph (1), the term ‘applicable percentage’
8 means 100 percent minus one percentage point for each
9 full month the property was held after the date on which
10 the property was held 20 full months.

11 “(b) ADDITIONAL DEPRECIATION DEFINED.—For
12 purposes of this section—

13 “(1) IN GENERAL.—The term ‘additional deprecia-
14 tion’ means, in the case of any property, the depreciation
15 adjustments in respect of such property; except that, in
16 the case of property held more than one year, it means
17 such adjustments only to the extent that they exceed the
18 amount of the depreciation adjustments which would
19 have resulted if such adjustments had been determined
20 for each taxable year under the straight line method of
21 adjustment. For purposes of the preceding sentence, if a
22 useful life (or salvage value) was used in determining
23 the amount allowed as a deduction for any taxable year,
24 such life (or value) shall be used in determining the

1 depreciation adjustments which would have resulted for
2 such year under the straight line method.

3 “(2) PROPERTY HELD BY LESSEE.—In the case
4 of a lessee, in determining the depreciation adjustments
5 which would have resulted in respect of any building
6 erected (or other improvement made) on the leased
7 property, or in respect of any cost of acquiring the lease,
8 the lease period shall be treated as including all renewal
9 periods. For purposes of the preceding sentence—

10 “(A) the term ‘renewal period’ means any
11 period for which the lease may be renewed, ex-
12 tended, or continued pursuant to an option exercis-
13 able by the lessee, but

14 “(B) the inclusion of renewal periods shall
15 not extend the period taken into account by more
16 than $\frac{2}{3}$ of the period on the basis of which the
17 depreciation adjustments were allowed.

18 “(3) DEPRECIATION ADJUSTMENTS.—The term
19 ‘depreciation adjustments’ means, in respect of any
20 property, all adjustments attributable to periods after
21 December 31, 1963, reflected in the adjusted basis of
22 such property on account of deductions (whether in
23 respect of the same or other property) allowed or
24 allowable to the taxpayer or to any other person for

1 exhaustion, wear and tear, obsolescence, or amortization
2 (other than amortization under section 168). For pur-
3 poses of the preceding sentence, if the taxpayer can
4 establish by adequate records or other sufficient evidence
5 that the amount allowed as a deduction for any period
6 was less than the amount allowable, the amount taken
7 into account for such period shall be the amount allowed.

8 “(c) SECTION 1250 PROPERTY.—For purposes of this
9 section, the term ‘section 1250 property’ means any real
10 property (other than section 1245 property, as defined in
11 section 1245 (a) (3)) which is or has been property of a
12 character subject to the allowance for depreciation provided
13 in section 167.

14 “(d) EXCEPTIONS AND LIMITATIONS.—

15 “(1) GIFTS.—Subsection (a) shall not apply to a
16 disposition by gift.

17 “(2) TRANSFERS AT DEATH.—Except as provided
18 in section 691 (relating to income in respect of a de-
19 cedent), subsection (a) shall not apply to a transfer at
20 death.

21 “(3) CERTAIN TAX-FREE TRANSACTIONS.—If the
22 basis of property in the hands of a transferee is deter-
23 mined by reference to its basis in the hands of the trans-
24 feror by reason of the application of section 332, 351,
25 361, 371 (a), 374 (a), 721, or 731, then the amount

1 of gain taken into account by the transferor under sub-
 2 section (a) (1) shall not exceed the amount of gain
 3 recognized to the transferor on the transfer of such prop-
 4 erty (determined without regard to this section).
 5 This paragraph shall not apply to a disposition to an
 6 organization (other than a cooperative described in sec-
 7 tion 521) which is exempt from the tax imposed by this
 8 chapter.

9 “(4) LIKE KIND EXCHANGES; INVOLUNTARY
 10 CONVERSIONS, ETC.—

11 “(A) RECOGNITION LIMIT.—If property is
 12 disposed of and gain (determined without regard
 13 to this section) is not recognized in whole or in
 14 part under section 1031 or 1033, then the amount
 15 of gain taken into account by the transferor under
 16 subsection (a) (1) shall not exceed the greater of
 17 the following:

18 “(i) the amount of gain recognized on the
 19 disposition (determined without regard to this
 20 section), increased as provided in subparagraph
 21 (B), or

22 “(ii) the amount determined under sub-
 23 paragraph (C).

24 “(B) INCREASE FOR CERTAIN STOCK.—With
 25 respect to any transaction, the increase provided

1 by this subparagraph is the amount equal to the
2 fair market value of any stock purchased in a cor-
3 poration which (but for this paragraph) would
4 result in nonrecognition of gain under section
5 1033 (a) (3) (A) .

6 “(C) ADJUSTMENT WHERE INSUFFICIENT
7 SECTION 1250 PROPERTY IS ACQUIRED.—With re-
8 spect to any transaction, the amount determined
9 under this subparagraph shall be the excess of—

10 “(i) the amount of gain which would (but
11 for this paragraph) be taken into account un-
12 der subsection (a) (1) , over

13 “(ii) the fair market value (or cost in
14 the case of a transaction described in section
15 1033 (a) (3)) of the section 1250 property
16 acquired in the transaction.

17 “(D) BASIS OF PROPERTY ACQUIRED.—In the
18 case of property purchased by the taxpayer in a
19 transaction described in section 1033 (a) (3) , in
20 applying the last sentence of section 1033 (c) , such
21 sentence shall be applied—

22 “(i) first solely to section 1250 properties
23 and to the amount of gain not taken into ac-
24 count under subsection (a) (1) by reason of
25 this paragraph, and

1 “(ii) then to all purchased properties
2 to which such sentence applies and to the re-
3 maining gain not recognized on the transaction
4 as if the cost of the section 1250 properties were
5 the basis of such properties computed under
6 clause (i).

7 In the case of property acquired in any other trans-
8 action to which this paragraph applies, rules con-
9 sistent with the preceding sentence shall be applied
10 under regulations prescribed by the Secretary or his
11 delegate.

12 “(E) ADDITIONAL DEPRECIATION WITH RE-
13 SPECT TO PROPERTY DISPOSED OF.—In the case of
14 any transaction described in section 1031 or 1033,
15 the additional depreciation in respect of the section
16 1250 property acquired which is attributable to the
17 section 1250 property disposed of shall be an amount
18 equal to the amount of the gain which was not
19 taken into account under subsection (a) (1) by
20 reason of the application of this paragraph.

21 “(5) SECTION 1071 AND 1081 TRANSACTIONS.—
22 Under regulations prescribed by the Secretary or his
23 delegate, rules consistent with paragraphs (3) and (4)
24 of this subsection and with subsections (e) and (f)
25 shall apply in the case of transactions described in sec-

1 tion 1071 (relating to gain from sale or exchange to
2 effectuate policies of FCC) or section 1081 (relating to
3 exchanges in obedience to SEC orders).

4 “(6) PROPERTY DISTRIBUTED BY A PARTNERSHIP
5 TO A PARTNER.—

6 “(A) IN GENERAL.—For purposes of this sec-
7 tion, the basis of section 1250 property distributed
8 by a partnership to a partner shall be deemed to be
9 determined by reference to the adjusted basis of
10 such property to the partnership.

11 “(B) ADDITIONAL DEPRECIATION.—In respect
12 of any property described in subparagraph (A), the
13 additional depreciation attributable to periods before
14 the distribution by the partnership shall be—

15 “(i) the amount of the gain to which sub-
16 section (a) would have applied if such property
17 had been sold by the partnership immediately
18 before the distribution at its fair market value
19 at such time and the applicable percentage for
20 the property had been 100 percent, reduced by

21 “(ii) if section 751 (b) applied to any part
22 of such gain, the amount of such gain to which
23 section 751 (b) would have applied if the ap-
24 plicable percentage for the property had been
25 100 percent.

1 “(7) DISPOSITION OF PRINCIPAL RESIDENCE.—

2 Subsection (a) shall not apply to a disposition of—

3 “(A) property to the extent used by the tax-
4 payer as his principal residence (within the mean-
5 ing of section 1034, relating to sale or exchange
6 of residence), and

7 “(B) property in respect of which the taxpayer
8 meets the age and ownership requirements of section
9 121 (relating to gains from sale or exchange of
10 residence of individual who has attained the age of
11 65) but only to the extent that he meets the use
12 requirements of such section in respect of such
13 property.

14 “(e) HOLDING PERIOD.—For purposes of determining
15 the applicable percentage under this section, the provisions
16 of section 1223 shall not apply, and the holding period of
17 section 1250 property shall be determined under the follow-
18 ing rules:

19 “(1) BEGINNING OF HOLDING PERIOD.—The hold-
20 ing period of section 1250 property shall be deemed to
21 begin—

22 “(A) in the case of property acquired by the
23 taxpayer, on the day after the date of acquisition,
24 or

25 “(B) in the case of property constructed, re-

1 constructed, or erected by the taxpayer, on the
2 first day of the month during which the property
3 is placed in service.

4 “(2) PROPERTY WITH TRANSFERRED BASIS.—If
5 the basis of property acquired in a transaction described
6 in paragraph (1), (2), (3), or (5) of subsection (d)
7 is determined by reference to its basis in the hands of the
8 transferor, then the holding period of the property in
9 the hands of the transferee shall include the holding
10 period of the property in the hands of the transferor.

11 “(3) PRINCIPAL RESIDENCE.—If the basis of
12 property acquired in a transaction described in para-
13 graph (7) of subsection (d) is determined by reference
14 to the basis in the hands of the taxpayer of other prop-
15 erty, then the holding period of the property acquired
16 shall include the holding period of such other property.

17 “(f) SPECIAL RULES FOR PROPERTY WHICH IS SUB-
18 STANTIALLY IMPROVED.—

19 “(1) AMOUNT TREATED AS ORDINARY IN-
20 COME.—If, in the case of a disposition of section 1250
21 property, the property is treated as consisting of more
22 than one element by reason of paragraph (3), then the
23 amount taken into account under subsection (a) (1)
24 in respect of such section 1250 property as gain from
25 the sale or exchange of property which is neither a

capital asset nor property described in section 1231 shall be the sum of the amounts determined under paragraph (2).

“(2) ORDINARY INCOME ATTRIBUTABLE TO AN ELEMENT.—For purposes of paragraph (1), the amount taken into account for any element shall be the amount determined by multiplying—

“(A) the amount which bears the same ratio to the lower of the amounts specified in subparagraph (A) or (B) of subsection (a) (1) for the section 1250 property as the additional depreciation for such element bears to the sum of the additional depreciation for all elements, by

“(B) the applicable percentage for such element.

For purposes of this paragraph, determinations with respect to any element shall be made as if it were a separate property.

“(3) PROPERTY CONSISTING OF MORE THAN ONE ELEMENT.—In applying this subsection in the case of any section 1250 property, there shall be treated as a separate element—

“(A) each separate improvement,

“(B) if, before completion of section 1250 property, units thereof (as distinguished from im-

1 provements) were placed in service, each such unit
2 of section 1250 property, and

3 “(C) the remaining property which is not
4 taken into account under subparagraphs (A) and
5 (B).

6 “(4) PROPERTY WHICH IS SUBSTANTIALLY IM-
7 PROVED.—For purposes of this subsection—

8 “(A) IN GENERAL.—The term ‘separate im-
9 provement’ means each improvement added during
10 the 36-month period ending on the last day of any
11 taxable year to the capital account for the prop-
12 erty, but only if the sum of the amounts added to
13 such account during such period exceeds the
14 greatest of—

15 “(i) 25 percent of the adjusted basis of
16 the property,

17 “(ii) 10 percent of the adjusted basis of
18 the property, determined without regard to the
19 adjustments provided in paragraphs (2) and
20 (3) of section 1016 (a), or

21 “(iii) \$5,000.

22 For purposes of clauses (i) and (ii), the adjusted
23 basis of the property shall be determined as of the
24 beginning of the first day of such 36-month period,

or of the holding period of the property (within the meaning of subsection (e)), whichever is the later.

“(B) EXCEPTION.—Improvements in any taxable year shall be taken into account for purposes of subparagraph (A) only if the sum of the amounts added to the capital account for the property for such taxable year exceeds the greater of—

“(i) \$2,000, or

“(ii) one percent of the adjusted basis referred to in subparagraph (A) (ii), determined, however, as of the beginning of such taxable year.

For purposes of this section, if the amount added to the capital account for any separate improvement does not exceed the greater of clause (i) or (ii), such improvement shall be treated as placed in service on the first day, of a calendar month, which is closest to the middle of the taxable year.

“(C) IMPROVEMENT.—The term ‘improvement’ means, in the case of any section 1250 property, any addition to capital account for such property after the initial acquisition or after completion of the property.

“(g) ADJUSTMENTS TO BASIS.—The Secretary or his

1 delegate shall prescribe such regulations as he may deem nec-
 2 essary to provide for adjustments to the basis of property to
 3 reflect gain recognized under subsection (a).

4 “(h) APPLICATION OF SECTION.—This section shall
 5 apply notwithstanding any other provision of this subtitle.”

6 (b) TECHNICAL AMENDMENTS.—

7 (1) SPECIAL RULE FOR CHARITABLE CONTRIBU-
 8 TIONS.—

9 (A) The heading of section 170(e) (relating
 10 to special rule for charitable contributions of section
 11 1245 property) is amended by striking out “SEC-
 12 TION 1245 PROPERTY” and inserting in lieu thereof
 13 “CERTAIN PROPERTY”.

14 (B) The text of such section 170(e) is
 15 amended by striking out “section 1245(a)” and in-
 16 serting in lieu thereof “section 1245(a) or
 17 1250(a)”.

18 (2) CORPORATE DISTRIBUTIONS OF PROPERTY.—
 19 Subsections (b) and (d) of section 301 (relating to
 20 amount distributed) are each amended by striking out
 21 “under section 1245(a)” and inserting in lieu thereof
 22 “under section 1245(a) or 1250(a)”.

23 (3) EFFECT ON EARNINGS AND PROFITS.—Para-
 24 graph (3) of section 312(c) (relating to adjustments

1 of earnings and profits) is amended by striking out “or
 2 under section 1245 (a)” and inserting in lieu thereof
 3 “or under section 1245 (a) or 1250 (a)”.

4 (4) COLLAPSIBLE CORPORATIONS.—Paragraph
 5 (12) of section 341 (e) (relating to collapsible cor-
 6 porations) is amended by striking out “section 1245
 7 (a)” and inserting in lieu thereof “sections 1245 (a)
 8 and 1250 (a)”.

9 (5) INSTALLMENT OBLIGATIONS IN CERTAIN
 10 LIQUIDATIONS.—Subparagraphs (A) and (B) of section
 11 453 (d) (4) (relating to distribution of installment obli-
 12 gations in certain corporate liquidations) are each
 13 amended by striking out “section 1245 (a)” and insert-
 14 ing in lieu thereof “section 1245 (a) or 1250 (a)”.

15 (6) SPECIAL RULE FOR PARTNERSHIPS.—Section
 16 751 (c) (relating to definition of “unrealized receiva-
 17 bles” for purposes of subchapter K) is amended by
 18 striking out “(as defined in section 1245 (a) (3))” and
 19 inserting in lieu thereof “(as defined in section 1245
 20 (a) (3)) and section 1250 property (as defined in sec-
 21 tion 1250 (c))” and by striking out “to which section
 22 1245 (a)” and inserting in lieu thereof “to which section
 23 1245 (a) or 1250 (a)”.

1 (7) The table of sections for part IV of subchapter
2 P of chapter 1 is amended by adding at the end thereof
3 the following:

 “Sec. 1250. Gain from dispositions of certain depreciable
 realty.”

4 (c) **EFFECTIVE DATE.**—The amendments made by this
5 section shall apply to dispositions after December 31, 1963,
6 in taxable years ending after such date.

7 **SEC. (168)~~224~~ 234. AVERAGING.**

8 (a) **GENERAL RULE.**—Part I of subchapter Q of chap-
9 ter 1 is amended to read as follows:

10 **“PART I—INCOME AVERAGING**

 “Sec. 1301. Limitation on tax.

 “Sec. 1302. Definition of averagable income; related defi-
 nitions.

 “Sec. 1303. Eligible individuals.

 “Sec. 1304. Special rules.

 “Sec. 1305. Regulations.

11 **“SEC. 1301. LIMITATION ON TAX.**

12 “‘If an eligible individual has averagable income for the
13 computation year, and if the amount of such income exceeds
14 \$3,000, then the tax imposed by section 1 for the computa-
15 tion year which is attributable to averagable income shall
16 be 5 times the increase in tax under such section which would
17 result from adding 20 percent of such income to the sum of—

1 “(1) $133\frac{1}{3}$ percent of average base period income,
2 and

3 “(2) the amount (if any) of the average base
4 period capital gain net income.

5 **“SEC. 1302. DEFINITION OF AVERAGABLE INCOME; RE-**
6 **LATED DEFINITIONS.**

7 “(a) AVERAGABLE INCOME.—For purposes of this
8 part—

9 “(1) IN GENERAL.—The term ‘averagable income’
10 means the amount (if any) by which adjusted tax-
11 able income exceeds $133\frac{1}{3}$ percent of average base period
12 income.

13 “(2) ADJUSTMENT IN CERTAIN CASES FOR CAPI-
14 TAL GAINS.—If—

15 “(A) the average base period capital gain net
16 income, exceeds

17 “(B) the capital gain net income for the com-
18 putation year,

19 then the term ‘averagable income’ means the amount de-
20 termined under paragraph (1), reduced by an amount
21 equal to such excess.

22 “(b) ADJUSTED TAXABLE INCOME.—For purposes of

1 this part, the term 'adjusted taxable income' means the tax-
2 able income for the computation year, decreased by the sum
3 of the following amounts:

4 “(1) CAPITAL GAIN NET INCOME FOR THE COM-
5 PUTATION YEAR.—The amount (if any) of the capital
6 gain net income for the computation year.

7 “(2) INCOME ATTRIBUTABLE TO GIFTS, BEQUESTS,
8 ETC.—

9 “(A) IN GENERAL.—The amount of net in-
10 come attributable to an interest in property where
11 such interest was received by the taxpayer as a gift,
12 bequest, devise, or inheritance during the computa-
13 tion year or any base period year. This para-
14 graph shall not apply to gifts, bequests, devises,
15 or inheritances between husband and wife if they
16 make a joint return, or if one of them makes a re-
17 turn as a surviving spouse (as defined in section
18 2 (b)), for the computation year.

19 “(B) AMOUNT OF NET INCOME.—Unless the
20 taxpayer otherwise establishes to the satisfaction of
21 the Secretary or his delegate, the amount of net
22 income for any taxable year attributable to an
23 interest described in subparagraph (A) shall be
24 deemed to be 6 percent of the fair market value of
25 such interest (as determined in accordance with

1 the provisions of chapter 11 or chapter 12, as the
2 case may be):

3 “(C) LIMITATION.—This paragraph shall ap-
4 ply only if the sum of the net incomes attributable
5 to interests described in subparagraph (A) exceeds
6 \$3,000.

7 “(D) NET INCOME.—For purposes of this
8 paragraph, the term ‘net income’ means, with re-
9 spect to any interest, the excess of—

10 “(i) items of gross income attributable to
11 such interest, over

12 “(ii) the deductions properly allocable to
13 or chargeable against such items.

14 For purposes of computing such net income, capital
15 gains and losses shall not be taken into account.

16 “(3) WAGERING INCOME.—The amount (if any)
17 by which the gains from wagering transactions for the
18 computation year exceed the losses from such trans-
19 actions.

20 “(4) CERTAIN AMOUNTS RECEIVED BY OWNER-
21 EMPLOYEES.—The amount (if any) to which section
22 72 (m) (5) (relating to penalties applicable to certain
23 amounts received by owner-employees) applies.

24 “(c) AVERAGE BASE PERIOD INCOME.—For purposes
25 of this part—

1 “(1) IN GENERAL.—The term ‘average base period
2 income’ means one-fourth of the sum of the base period
3 incomes for the base period.

4 “(2) BASE PERIOD INCOME.—The base period in-
5 come for any taxable year is the taxable income for such
6 year first increased and then decreased (but not below
7 zero) in the following order:

8 “(A) Taxable income shall be increased by an
9 amount equal to the excess of—

10 “(i) the amount excluded from gross in-
11 come under section 911 (relating to earned in-
12 come from sources without the United States)
13 and subpart D of part III of subchapter N (sec.
14 931 and following, relating to income from
15 sources within possessions of the United States),
16 over

17 “(ii) the deductions which would have
18 been properly allocable to or chargeable against
19 such amount but for the exclusion of such
20 amount from gross income.

21 “(B) Taxable income shall be decreased by
22 the capital gain net income.

23 “(C) If the decrease provided by paragraph
24 (2) of subsection (b) applies to the computation
25 year, the taxable income shall be decreased under

1 the rules of such paragraph (2) (other than the
2 limitation contained in subparagraph (C) thereof).

3 “(d) CAPITAL GAIN NET INCOME, ETC.—For pur-
4 poses of this part—

5 “(1) CAPITAL GAIN NET INCOME.—The term
6 ‘capital gain net income’ (169) means, for any taxable
7 year beginning after December 31, 1963, the amount (if
8 any) by which—

9 “(A) the sum of the adjusted class A capital
10 gain and the adjusted class B capital gain, exceeds

11 “(B) the deduction allowable under section
12 1202(a).

13 The term ‘capital gain net income’ means, for any
14 taxable year beginning before January 1, 1964, means
15 the amount equal to 50 percent of the excess of the net
16 long-term capital gain over the net short-term capital
17 loss.

18 “(2) AVERAGE BASE PERIOD CAPITAL GAIN NET
19 INCOME.—The term ‘average base period capital gain
20 net income’ means one-fourth of the sum of the capital
21 gain net incomes for the base period. For purposes of
22 the preceding sentence, the capital gain net income for
23 any base period year shall not exceed the base period
24 income for such year computed without regard to sub-
25 section (c) (2) (B).

1 “(e) OTHER RELATED DEFINITIONS.—For purposes
2 of this part—

3 “(1) COMPUTATION YEAR.—The term ‘computa-
4 tion year’ means the taxable year for which the taxpayer
5 chooses the benefits of this part.

6 “(2) BASE PERIOD.—The term ‘base period’ means
7 the 4 taxable years immediately preceding the compu-
8 tation year.

9 “(3) BASE PERIOD YEAR.—The term ‘base period
10 year’ means any of the 4 taxable years immediately
11 preceding the computation year.

12 “(4) JOINT RETURN.—The term ‘joint return’
13 means the return of a husband and wife made under
14 section 6013.

15 **“SEC. 1303. ELIGIBLE INDIVIDUALS.**

16 “(a) GENERAL RULE.—Except as otherwise provided
17 in this section, for purposes of this part the term ‘eligible
18 individual’ means any individual who is a citizen or resi-
19 dent of the United States throughout the computation year.

20 “(b) NONRESIDENT ALIEN INDIVIDUALS.—For pur-
21 poses of this part, an individual shall not be an eligible in-
22 dividual for the computation year if, at any time during
23 such year or the base period, such individual was a nonresi-
24 dent alien.

1 “(c) INDIVIDUALS RECEIVING SUPPORT FROM
2 OTHERS.—

3 “(1) IN GENERAL.—For purposes of this part, an
4 individual shall not be an eligible individual for the com-
5 putation year if, for any base period year, such individ-
6 ual (and his spouse) furnished less than one-half of his
7 support.

8 “(2) EXCEPTIONS.—Paragraph (1) shall not ap-
9 ply to any computation year if—

10 “(A) such year ends after the individual at-
11 tained age 25 and, during at least 4 of his taxable
12 years beginning after he attained age 21 and end-
13 ing with his computation year, he was not a full-
14 time student,

15 “(B) more than one-half of the individual’s
16 adjusted taxable income for the computation year
17 is attributable to work performed by him in sub-
18 stantial part during 2 or more of the base period
19 years, or

20 “(C) the individual makes a joint return for
21 the computation year and not more than 25 per-
22 cent of the aggregate adjusted gross income of such
23 individual and his spouse for the computation year
24 is attributable to such individual.

1 In applying subparagraph (C), amounts which consti-
 2 tute earned income (within the meaning of section 911
 3 (b)) and are community income under community
 4 property laws applicable to such income shall be taken
 5 into account as if such amounts did not constitute com-
 6 munity income.

7 “(d) STUDENT DEFINED.—For purposes of this sec-
 8 tion, the term ‘student’ means, with respect to a taxable year,
 9 an individual who during each of 5 calendar months during
 10 such taxable year—

11 “(1) was a full-time student at an educational in-
 12 stitution (as defined in section 151 (e) (4)) ; or

13 “(2) was pursuing a full-time course of institu-
 14 tional on-farm training under the supervision of an ac-
 15 credited agent of an educational institution (as defined
 16 in section 151 (e) (4)) or of a State or political sub-
 17 division of a State.

18 **“SEC. 1304. SPECIAL RULES.**

19 “(a) TAXPAYER MUST CHOOSE BENEFITS.—This part
 20 shall apply to the taxable year only if the taxpayer chooses
 21 to have the benefits of this part for such taxable year. Such
 22 choice may be made or changed at any time before the
 23 expiration of the period prescribed for making a claim for
 24 credit or refund of the tax imposed by this chapter for the
 25 taxable year.

1 “(b) CERTAIN PROVISIONS INAPPLICABLE.—If the
2 taxpayer chooses the benefits of this part for the taxable
3 year, the following provisions shall not apply to him for
4 such year:

5 “(1) section 3 (relating to optional tax if adjusted
6 gross income is less than \$5,000),

7 “(2) section 72(n) (2) (relating to limitation of
8 tax in case of certain distributions with respect to con-
9 tributions by self-employed individuals),

10 “(3) section 911 (relating to earned income from
11 sources without the United States), and

12 “(4) subpart D of part III of subchapter N (sec.
13 931 and following, relating to income from sources
14 within possessions of the United States).

15 “(c) FAILURE OF CERTAIN MARRIED INDIVIDUALS
16 TO MAKE JOINT RETURN, ETC.—

17 “(1) APPLICATION OF SUBSECTION.—Paragraphs
18 (2), (3), and (4) of this subsection shall apply in the
19 case of any individual who was married for any base
20 period year or the computation year; except that—

21 “(A) such paragraphs shall not apply in re-
22 spect of a base period year if—

23 “(i) such individual and his spouse make
24 a joint return, or such individual makes a re-

1 turn as a surviving spouse (as defined in section
2 2 (b)), for the computation year, and

3 “(ii) such individual was not married to
4 any other spouse for such base period year, and

5 “(B) paragraph (4) shall not apply in respect
6 of the computation year if the individual and his
7 spouse make a joint return for such year.

8 “(2) MINIMUM BASE PERIOD INCOME.—For pur-
9 poses of this part, the base period income of an individual
10 for any base period year shall not be less than 50 percent
11 of the base period income which would result from com-
12 bining his income and deductions for such year—

13 “(A) with the income and deductions for such
14 year of the individual who is his spouse for the
15 computation year, or

16 “(B) if greater, with the income and deduc-
17 tions for such year of the individual who was his
18 spouse for such base period year.

19 “(3) MINIMUM BASE PERIOD CAPITAL GAIN NET
20 INCOME.—For purposes of this part, the capital gain
21 net income of any individual for any base period year
22 shall not be less than 50 percent of the capital gain net
23 income which would result from combining his capital
24 gain net income for such year (determined without re-
25 gard to this paragraph) with the capital gain net income

1 for such year (similarly determined) of the individual
 2 with whom he is required by paragraph (2) to combine
 3 his income and deductions for such year.

4 “(4) COMMUNITY INCOME ATTRIBUTABLE TO
 5 SERVICES.—In the case of amounts which constitute
 6 earned income (within the meaning of section 911 (b))
 7 and are community income under community property
 8 laws applicable to such income—

9 “(A) the amount taken into account for any
 10 base period year for purposes of determining base
 11 period income shall not be less than the amount
 12 which would be taken into account if such amounts
 13 did not constitute community income, and

14 “(B) the amount taken into account for pur-
 15 poses of determining adjusted taxable income for
 16 the computation year shall not exceed the amount
 17 which would be taken into account if such amounts
 18 did not constitute community income.

19 “(5) MARITAL STATUS.—For purposes of this
 20 subsection, section 143 shall apply in determining
 21 whether an individual is married for any taxable year.

22 “(d) DOLLAR LIMITATIONS IN CASE OF JOINT RE-
 23 TURNS.—In the case of a joint return, the \$3,000 figure con-
 24 tained in section 1301 shall be applied to the aggregate
 25 averagable income, and the \$3,000 figure contained in sec-

1 tion 1302 (b) (2) (C) shall be applied to the aggregate net
2 incomes.

3 “(e) SPECIAL RULES WHERE THERE ARE CAPITAL
4 GAINS.—

5 “(1) TREATMENT OF CAPITAL GAINS IN COMPU-
6 TATION YEAR.—In the case of any taxpayer who has
7 capital gain net income for the computation year, the
8 tax imposed by section 1 for the computation year
9 which is attributable to the amount of such net income
10 shall be computed—

11 “(A) by adding so much of the amount thereof
12 as does not exceed average base period capital
13 gain net income above $133\frac{1}{3}$ percent of average base
14 period income, and

15 “(B) by adding the remainder (if any) of
16 such net income above the 20 percent of the aver-
17 agable income as taken into account for purposes
18 of computing the tax imposed by section 1 (and
19 above the amounts (if any) referred to in subsec-
20 tion (f) (1)).

21 “(2) COMPUTATION OF ALTERNATIVE TAX.—In
22 the case of any taxpayer who has capital gain net in-
23 come for the computation year, section 1201 (b) shall
24 be treated as imposing a tax equal to the tax imposed

by section 1, reduced by the amount (if any) by which—

“(A) the tax imposed by section 1 and attributable to the capital gain net income for the computation year (determined under paragraph (1)), exceeds

(170)“(B) the sum of—

“(i) 21 percent of the adjusted class A capital gain; and

“(ii) 25 percent of the adjusted class B capital gain.

“(B) an amount equal to 25 percent of the excess of the net long-term capital gain over the net short-term capital loss.

“(f) TREATMENT OF CERTAIN OTHER ITEMS.—

“(1) GIFT OR WAGERING INCOME.—The tax imposed by section 1 for the computation year which is attributable to the amounts subtracted from taxable income under paragraphs (2) and (3) of section 1302 (b) shall equal the increase in tax under section 1 which results from adding such amounts above the 20 percent of the averagable income as taken into account for purposes of computing the tax imposed thereon by section 1.

1 “(2) SECTION 72 (m) (5).—Section 72 (m) (5)
 2 (relating to penalties applicable to certain amounts
 3 received by owner-employees) shall be applied as if this
 4 part had not been enacted.

5 “(3) OTHER ITEMS.—Except as otherwise provided
 6 in this part, the order and manner in which items of in-
 7 come shall be taken into account in computing the tax
 8 imposed by this chapter on the income of any eligible
 9 individual to whom section 1301 applies for any compu-
 10 tation year shall be determined under regulations pre-
 11 scribed by the Secretary or his delegate.

12 “(g) SHORT TAXABLE YEARS.—In the case of any
 13 computation year or base period year which is a short tax-
 14 able year, this part shall be applied in the manner provided
 15 in regulations prescribed by the Secretary or his delegate.

16 **“SEC. 1305. REGULATIONS.**

17 “The Secretary or his delegate shall prescribe such regu-
 18 lations as may be necessary to carry out the purposes of this
 19 part.”

20 (b) REPEAL OF SECTION 72 (e) (3).—Section 72
 21 (e) (3) (relating to limit on tax attributable to receipt of
 22 lump sum) is hereby repealed.

23 (171)(c) AMENDMENT OF SECTION 144.—Section 144 (*re-*
 24 *lating to election of standard deduction*) is amended by add-

1 ing after subsection (c) (as added by 112 (c)(2) of this
2 Act) the following new subsection:

3 “(d) *INDIVIDUALS ELECTING INCOME AVERAGING.*—

4 In the case of a taxpayer who chooses to have the benefits of
5 part I of subchapter Q (relating to income averaging) for
6 the taxable year—

7 “(1) subsection (a) shall not apply for such taxable
8 year, and

9 “(2) the standard deduction shall be allowed if the
10 taxpayer so elects in his return for such taxable year.

11 The Secretary or his delegate shall by regulations prescribe
12 the manner of signifying such election in the return. If the
13 taxpayer on making his return fails to signify, in the manner
14 so prescribed, his election to take the standard deduction, such
15 failure shall be considered his election not to take the standard
16 deduction.”

17 ~~(172)(e)~~ (d) *STATUTE OF LIMITATIONS.*—Section 6511

18 (d) (2) (B) (relating to special period of limitation with
19 respect to net operating loss carrybacks) is amended to read
20 as follows:

21 “(B) *APPLICABLE RULES.*—

22 “(i) If the allowance of a credit or refund
23 of an overpayment of tax attributable to a net

1 operating loss carryback is otherwise prevented
2 by the operation of any law or rule of law other
3 than section 7122, relating to compromises,
4 such credit or refund may be allowed or made,
5 if claim therefor is filed within the period pro-
6 vided in subparagraph (A) of this paragraph.
7 If the allowance of an application, credit, or re-
8 fund of a decrease in tax determined under sec-
9 tion 6411 (b) is otherwise prevented by the
10 operation of any law or rule of law other than
11 section 7122, such application, credit, or refund
12 may be allowed or made if application for a ten-
13 tative carryback adjustment is made within the
14 period provided in section 6411 (a). In the
15 case of any such claim for credit or refund or
16 any such application for a tentative carryback
17 adjustment, the determination by any court, in-
18 cluding the Tax Court, in any proceeding in
19 which the decision of the court has become final,
20 shall be conclusive except with respect to the
21 net operating loss deduction, and the effect of
22 such deduction, to the extent that such deduc-
23 tion is affected by a carryback which was not
24 in issue in such proceeding.

25 “(ii) A claim for credit or refund for a

1 computation year (as defined in section 1302
 2 (e) (1)) shall be determined to relate to an
 3 overpayment attributable to a net operating loss
 4 carryback when such carryback relates to any
 5 base period year (as defined in section
 6 1302 (e) (3)).”

7 **(173)(d)** (e) TECHNICAL AMENDMENTS.—The following
 8 provisions are amended by striking out “except that section
 9 72 (e) (3) shall not apply”:

10 (1) The first sentence of section 402 (a) (1) (re-
 11 lating to general rule for taxability of beneficiary of
 12 exempt trust) .

13 (2) The second sentence of section 402 (b) (re-
 14 lating to taxability of beneficiary of non-exempt trust) .

15 (3) The second sentence of section 402 (d) (re-
 16 lating to certain employees’ annuities) .

17 (4) Section 403 (a) (1) (relating to the general
 18 rule for taxability of a beneficiary under a qualified
 19 annuity plan) .

20 (5) The second sentence of section 403 (b) (1)
 21 (relating to general rule for taxability of beneficiary,
 22 etc.) .

23 (6) The second sentence of section 403 (c) (re-
 24 lating to taxability of beneficiary under a nonqualified
 25 annuity) .

1 **(174)**~~(e)~~ *(f)* CLERICAL AMENDMENTS.—

2 (1) Subsection (f) of section 4 (relating to cross
3 references to rules for optional tax) is amended by
4 adding at the end thereof the following new paragraph:

“**(3)** For rule that optional tax is not to apply if individual chooses the benefits of income averaging, see section 1304(b).”

5 (2) Subsection (b) of section 5 (relating to cross
6 references to special limitations on tax) is amended to
7 read as follows:

8 **“(b) SPECIAL LIMITATIONS ON TAX.—**

“**(1)** For limitation on surtax attributable to sales of oil or gas properties, see section 632.

“**(2)** For limitation on tax in case of income of members of Armed Forces on death, see section 692.

“**(3)** For limitation on tax where an individual chooses the benefits of income averaging, see section 1301.

“**(4)** For computation of tax where taxpayer restores substantial amount held under claim of right, see section 1341.

“**(5)** For limitation on surtax attributable to claims against the United States involving acquisitions of property, see section 1347.”

9 (3) The table of parts for subchapter Q of chapter
10 1 is amended by striking out

“Part I. Income attributable to several taxable years.”

11 and inserting in lieu thereof

“Part I. Income averaging.”

12 **(175)**~~(f)~~ *(g)* EFFECTIVE DATE.—

13 (1) GENERAL RULE.—Except as provided in para-
14 graph (2), the amendments made by this section shall

1 apply with respect to taxable years beginning after
2 December 31, 1963.

3 (2) INCOME FROM AN EMPLOYMENT.—If, in a
4 taxable year beginning after December 31, 1963, an in-
5 dividual or partnership receives or accrues compensa-
6 tion from an employment (as defined by section 1301
7 (b) of the Internal Revenue Code of 1954 as in effect
8 immediately before the enactment of this Act) and the
9 employment began before February 6, 1963, the tax
10 attributable to such compensation may, at the election of
11 the taxpayer, be computed under the provisions of sec-
12 tions 1301 and 1307 of such Code as in effect immedi-
13 ately before the enactment of this Act. If a taxpayer
14 so elects (at such time and in such manner as the Secre-
15 tary of the Treasury or his delegate by regulations pre-
16 scribes), he may not choose for such taxable year the
17 benefits provided by part I of subchapter Q of chapter 1
18 of such Code (relating to income averaging) as amended
19 by this Act (176) *and (if he elects to have subsection (e)*
20 *of such section 1307 apply) section 170(b)(5) of such*
21 *Code as amended by this Act shall not apply to charita-*
22 *ble contributions paid in such taxable year.*

1 (177)SEC. 235. SMALL BUSINESS CORPORATIONS.

2 (a) OWNERSHIP OF CERTAIN STOCK DISREGARD-
3 ED.—Section 1371 (relating to definition of small business
4 corporation) is amended by adding at the end thereof the
5 following new subsection:

6 “(d) OWNERSHIP OF CERTAIN STOCK.—For purposes
7 of subsection (a), a corporation shall not be considered a
8 member of an affiliated group at any time during any tax-
9 able year by reason of the ownership of stock in another
10 corporation if such other corporation—

11 “(1) has not begun business at any time on or after
12 the date of its incorporation and before the close of such
13 taxable year, and

14 “(2) does not have taxable income for the period
15 included within such taxable year.”

16 (b) CERTAIN DISTRIBUTIONS OF MONEY AFTER
17 CLOSE OF TAXABLE YEAR.—Section 1375 (relating to
18 special rules applicable to distributions of electing small
19 business corporations) is amended by adding at the end
20 thereof the following new subsection:

21 “(c) CERTAIN DISTRIBUTIONS AFTER CLOSE OF
22 TAXABLE YEAR.—

23 “(1) IN GENERAL.—For purposes of this chapter,
24 if—

25 “(A) a corporation makes a distribution of

1 money to its shareholders on or before the 15th day
 2 of the third month following the close of a taxable
 3 year with respect to which it was an electing small
 4 business corporation, and

5 “(B) such distribution is made pursuant to a
 6 resolution of the board of directors of the corpora-
 7 tion, adopted before the close of such taxable year, to
 8 distribute to its shareholders all or a part of the
 9 proceeds of one or more sales of capital assets, or of
 10 property described in section 1231(b), made dur-
 11 ing such taxable year,

12 such distribution shall, at the election of the corporation,
 13 be treated as a distribution of money made on the last day
 14 of such taxable year.

15 “(2) SHAREHOLDERS.—An election under para-
 16 graph (1) with respect to any distribution may be made
 17 by a corporation only if each person who is a shareholder
 18 on the day the distribution is received—

19 “(A) owns the same proportion of the stock
 20 of the corporation on such day as he owned on the
 21 last day of the taxable year of the corporation pre-
 22 ceding the distribution, and

23 “(B) consents to such election at such time and
 24 in such manner as the Secretary or his delegate
 25 shall prescribe by regulations.

1 “(3) *MANNER AND TIME OF ELECTION.*—An elec-
 2 tion under paragraph (1) shall be made in such manner
 3 as the Secretary or his delegate shall prescribe by regu-
 4 lations. Such election shall be made not later than the
 5 time prescribed by law for filing the return for the taxable
 6 year during which the sale was made (including ex-
 7 tensions thereof) except that, with respect to any taxable
 8 year ending on or before the date of the enactment of
 9 the Revenue Act of 1964, such election shall be made
 10 within 120 days after such date.”

11 (c) *EFFECTIVE DATES.*—The amendment made by sub-
 12 section (a) shall apply with respect to taxable years of cor-
 13 porations beginning after December 31, 1962. The amend-
 14 ment made by subsection (b) shall apply with respect to
 15 taxable years of corporations beginning after December 31,
 16 1957.

17 **SEC. (178)~~222~~ 236. REPEAL OF ADDITIONAL 2-PERCENT**
 18 **TAX FOR CORPORATIONS FILING**
 19 **CONSOLIDATED RETURNS.**

20 (a) *REPEAL OF TAX.*—Subsection (a) of section 1503
 21 (relating to computation and payment of tax in case of con-
 22 solidated returns) is amended to read as follows:

23 “(a) *GENERAL RULE.*—In any case in which a con-
 24 solidated return is made or is required to be made, the tax
 25 shall be determined, computed, assessed, collected, and ad-

1 justed in accordance with the regulations under section 1502
 2 prescribed before the last day prescribed by law for the filing
 3 of such return.”

4 (b) TECHNICAL AND CONFORMING AMENDMENTS.—

5 (1) Section 1503 is amended by striking out sub-
 6 sections (b) and (c) and by relettering subsection (d)
 7 as subsection (b).

8 (2) Paragraph (3) of section 1503 (b) (as re-
 9 lettered by paragraph (1)) is amended to read as
 10 follows:

11 “(3) SPECIAL RULES.—

12 “(A) For purposes of paragraph (2), a cor-
 13 poration is a regulated public utility only if it
 14 is a regulated public utility within the meaning of
 15 subparagraph (A) (other than clauses (ii) and
 16 (iii) thereof) or (D) of section 7701 (a) (33).

17 For purposes of the preceding sentence, the limita-
 18 tion contained in the last two sentences of section
 19 7701 (a) (33) shall be applied as if subparagraphs
 20 (A) through (F), inclusive, of section 7701 (a)
 21 (33) were limited to subparagraphs (A) (i) and
 22 (D) thereof.

23 “(B) For purposes of paragraph (2), the
 24 foreign countries referred to in this subparagraph
 25 include only any country from which any public

1 utility referred to in the first sentence of paragraph
2 (2) derives the principal part of its income.

3 “(C) For purposes of this subsection, the term
4 ‘consolidated taxable income’ means the consolidated
5 taxable income computed without regard to the
6 deduction provided by section 242 for partially tax-
7 exempt interest.”

8 (3) Section 7701 (a) (relating to definitions) is
9 amended by adding at the end thereof the following
10 new paragraph:

11 “(33) REGULATED PUBLIC UTILITY.—The term
12 ‘regulated public utility’ means—

13 “(A) A corporation engaged in the furnishing
14 or sale of—

15 “(i) electric energy, gas, water, or sewer-
16 age disposal services, or

17 “(ii) transportation (not included in sub-
18 paragraph (C)) on an intrastate, suburban,
19 municipal, or interurban electric railroad, on an
20 intrastate, municipal, or suburban trackless
21 trolley system, or on a municipal or suburban
22 bus system, or

23 “(iii) transportation (not included in
24 clause (ii)) by motor vehicle—

25 if the rates for such furnishing or sale, as the case

1 may be, have been established or approved by a
2 State or political subdivision thereof, by an agency
3 or instrumentality of the United States, by a public
4 service or public utility commission or other similar
5 body of the District of Columbia or of any State or
6 political subdivision thereof, or by a foreign country
7 or an agency or instrumentality or political sub-
8 division thereof.

9 “(B) A corporation engaged as a common car-
10 rier in the furnishing or sale of transportation of gas
11 by pipe line, if subject to the jurisdiction of the
12 Federal Power Commission.

13 “(C) A corporation engaged as a common car-
14 rier (i) in the furnishing or sale of transportation by
15 railroad, if subject to the jurisdiction of the Inter-
16 state Commerce Commission, or (ii) in the furnish-
17 ing or sale of transportation of oil or other petroleum
18 products (including shale oil) by pipeline, if sub-
19 ject to the jurisdiction of the Interstate Commerce
20 Commission or if the rates for such furnishing or sale
21 are subject to the jurisdiction of a public service or
22 public utility commission or other similar body of
23 the District of Columbia or of any State.

24 “(D) A corporation engaged in the furnishing
25 or sale of telephone or telegraph service, if the rates

1 for such furnishing or sale meet the requirements of
2 subparagraph (A).

3 “(E) A corporation engaged in the furnishing
4 or sale of transportation as a common carrier by air,
5 subject to the jurisdiction of the Civil Aeronautics
6 Board.

7 “(F) A corporation engaged in the furnishing
8 or sale of transportation by common carrier by
9 water, subject to the jurisdiction of the Interstate
10 Commerce Commission under part III of the Inter-
11 state Commerce Act, or subject to the jurisdiction
12 of the Federal Maritime Board under the Inter-
13 coastal Shipping Act, 1933.

14 “(G) A railroad corporation subject to part I
15 of the Interstate Commerce Act, if (i) substan-
16 tially all of its railroad properties have been leased
17 to another such railroad corporation or corporations
18 by an agreement or agreements entered into before
19 January 1, 1954, (ii) each lease is for a term
20 of more than 20 years, and (iii) at least 80 per-
21 cent or more of its gross income (computed with-
22 out regard to dividends and capital gains and losses)
23 for the taxable year is derived from such leases
24 and from sources described in subparagraphs (A)
25 through (F), inclusive. For purposes of the pre-

ceding sentence, an agreement for lease of railroad properties entered into before January 1, 1954, shall be considered to be a lease including such term as the total number of years of such agreement may, unless sooner terminated, be renewed or continued under the terms of the agreement, and any such renewal or continuance under such agreement shall be considered part of the lease entered into before January 1, 1954.

“(H) A common parent corporation which is a common carrier by railroad subject to part I of the Interstate Commerce Act if at least 80 percent of its gross income (computed without regard to capital gains or losses) is derived directly or indirectly from sources described in subparagraphs (A) through (F), inclusive. For purposes of the preceding sentence, dividends and interest, and income from leases described in subparagraph (G), received from a regulated public utility shall be considered as derived from sources described in subparagraphs (A) through (F), inclusive, if the regulated public utility is a member of an affiliated group (as defined in section 1504) which includes the common parent corporation.

The term ‘regulated public utility’ does not (except as

1 provided in subparagraphs (G) and (H)) include a
2 corporation described in subparagraphs (A) through
3 (F), inclusive, unless 80 percent or more of its gross
4 income (computed without regard to dividends and
5 capital gains and losses) for the taxable year is derived
6 from sources described in subparagraphs (A) through
7 (F), inclusive. If the taxpayer establishes to the satis-
8 faction of the Secretary or his delegate that (i) its
9 revenue from regulated rates described in subparagraph
10 (A) or (D) and its revenue derived from unregulated
11 rates are derived from the operation of a single inter-
12 connected and coordinated system or from the operation
13 of more than one such system, and (ii) the unregulated
14 rates have been and are substantially as favorable to
15 users and consumers as are the regulated rates, then such
16 revenue from such unregulated rates shall be considered,
17 for purposes of the preceding sentence, as income derived
18 from sources described in subparagraph (A) or (D).”

19 (4) Section 12 (8) (relating to cross reference to
20 additional tax for corporations filing consolidated re-
21 turns) is hereby repealed.

22 (5) Paragraphs (1) and (2) of section 172 (j)
23 (relating to carryover of net operating loss for certain
24 regulated transportation corporations) are amended to
25 read as follows:

1 “(1) DEFINITION.—For purposes of subsection
 2 (b) (1) (C), the term ‘regulated transportation corpo-
 3 ration’ means a corporation—

4 “(A) 80 percent or more of the gross income
 5 of which (computed without regard to dividends
 6 and capital gains and losses) for the taxable year
 7 is derived from the furnishing or sale of transporta-
 8 tion described in subparagraph (A), (C) (i),
 9 (E), or (F) of section 7701 (a) (33) and taken
 10 into account for purposes of the limitation contained
 11 in the last two sentences of section 7701 (a) (33);

12 “(B) which is described in subparagraph (G)
 13 or (H) of section 7701 (a) (33), or

14 “(C) which is a member of a regulated trans-
 15 portation system.

16 “(2) REGULATED TRANSPORTATION SYSTEM.—
 17 For purposes of this subsection, a corporation shall be
 18 treated as a member of a regulated transportation system
 19 for a taxable year if—

20 “(A) it is a member of an affiliated group of
 21 corporations making a consolidated return for such
 22 taxable year, and

23 “(B) 80 percent or more of the aggregate
 24 gross income of the members of such affiliated group
 25 (computed without regard to dividends and capital

1 gains and losses) for such taxable year is derived
2 from sources described in paragraph (1) (A).

3 For purposes of subparagraph (B), income derived by
4 a corporation described in subparagraph (G) or (H)
5 of section 7701 (a) (33) from leases described in sub-
6 paragraph (G) thereof shall be considered as derived
7 from sources described in paragraph (1) (A)."

8 (6) Section 904 (g) (2) (relating to cross refer-
9 ences for purposes of the limitation on the foreign tax
10 credit) is amended by striking out "section 1503(d)"
11 and inserting in lieu thereof "section 1503(b)".

12 (7) Section 1341 (b) (2) (relating to special
13 rules for the computation of tax where taxpayer restores
14 substantial amount held under claim of right) is amended
15 by striking out "(as defined in section 1503 (c) without
16 regard to paragraph (2) thereof)" and inserting in lieu
17 thereof "(as defined in section 7701 (a) (33) without
18 regard to the limitation contained in the last two sen-
19 tences thereof)".

20 (8) Section 1552 (a) (3) (relating to the alloca-
21 tion of tax liability among members of an affiliated group
22 of corporations filing consolidated returns) is amended
23 by striking out "(determined without regard to the 2
24 percent increase provided by section 1503 (a))".

25 (c) EFFECTIVE DATE.—The amendments made by

1 subsections (a) and (b) shall apply with respect to taxable
 2 years beginning after December 31, 1963.

3 **SEC. (179)~~223~~ 237. REDUCTION OF SURTAX EXEMPTION**
 4 **IN CASE OF CERTAIN CONTROLLED**
 5 **CORPORATIONS, ETC.**

6 (a) **IN GENERAL.**—Subchapter B of chapter 6 (related
 7 rules for consolidated returns) is amended by adding at the
 8 end thereof the following new part:

9 **“PART II—CERTAIN CONTROLLED CORPORATIONS**

“Sec. 1561. Surtax exemptions in case of certain controlled corporations.

“Sec. 1562. Privilege of groups to elect multiple surtax exemptions.

“Sec. 1563. Definitions and special rules.

10 **“SEC. 1561. SURTAX EXEMPTIONS IN CASE OF CERTAIN**
 11 **CONTROLLED CORPORATIONS.**

12 “(a) **GENERAL RULE.**—If a corporation is a component
 13 member of a controlled group of corporations on a Decem-
 14 ber 31, then for purposes of this subtitle the surtax exemp-
 15 tion of such corporation for the taxable year which includes
 16 such December 31 shall be an amount equal to—

17 “(1) \$25,000 divided by the number of corpora-
 18 tions which are component members of such group on
 19 such December 31, or

20 “(2) if all such component members consent (at
 21 such time and in such manner as the Secretary or his
 22 delegate shall by regulations prescribe) to an apportion-

1 ment plan, such portion of \$25,000 as is apportioned
2 to such member in accordance with such plan.

3 The sum of the amounts apportioned under paragraph (2)
4 among the component members of any controlled group
5 shall not exceed \$25,000.

6 “(b) CERTAIN SHORT TAXABLE YEARS.—If a cor-
7 poration—

8 “(1) has a short taxable year which does not in-
9 clude a December 31, and

10 “(2) is a component member of a controlled group
11 of corporations with respect to such taxable year,

12 then for purposes of this subtitle the surtax exemption of
13 such corporation for such taxable year shall be an amount
14 equal to \$25,000 divided by the number of corporations
15 which are component members of such group on the last
16 day of such taxable year. For purposes of the preceding
17 sentence, section 1563 (b) shall be applied as if such last
18 day were substituted for December 31.

19 **“SEC. 1562. PRIVILEGE OF GROUPS TO ELECT MULTIPLE**
20 **SURTAX EXEMPTIONS.**

21 “(a) ELECTION OF MULTIPLE SURTAX EXEMP-
22 TIONS.—

23 “(1) IN GENERAL.—A controlled group of corpora-
24 tions shall (subject to the provisions of this section) have
25 the privilege of electing to have each of its component

1 members make its returns without regard to section 1561.
2 Such election shall be made with respect to a specified
3 December 31 and shall be valid only if—

4 “(A) each corporation which is a component
5 member of such group on such December 31, and

6 “(B) each other corporation which is a com-
7 ponent member of such group on any succeeding De-
8 cember 31 before the day on which the election is
9 filed,

10 consents to such election.

11 “(2) YEARS FOR WHICH EFFECTIVE.—An election
12 by a controlled group of corporations under paragraph
13 (1) shall be effective with respect to the taxable year of
14 each component member of such group which includes
15 the specified December 31, and each taxable year of each
16 corporation which is a component member of such group
17 (or a successor group) on a succeeding December 31 in-
18 cluded within such taxable year, unless the election is
19 terminated under subsection (c).

20 “(3) EFFECT OF ELECTION.—If an election by a
21 controlled group of corporations under paragraph (1) is
22 effective with respect to any taxable year of a corpora-
23 tion—

24 “(A) section 1561 shall not apply to such
25 corporation for such taxable year, but

1 “(B) the additional tax imposed by subsection
2 (b) shall apply to such corporation for such taxable
3 year.

4 “(b) ADDITIONAL TAX IMPOSED.—

5 “(1) GENERAL RULE.—If an election under sub-
6 section (a) (1) by a controlled group of corporations is
7 effective with respect to the taxable year of a corporation,
8 there is hereby imposed for such taxable year on the
9 taxable income of such corporation a tax equal to 6 per-
10 cent of so much of such corporation’s taxable income
11 for such taxable year as does not exceed \$25,000.

12 ~~“(180) This paragraph shall not apply to the taxable year~~
13 ~~of a corporation if no other corporation which is a com-~~
14 ~~ponent member of such controlled group on the Decem-~~
15 ~~ber 31 included in such corporation’s taxable year has~~
16 ~~taxable income for its taxable year including such~~
17 ~~December 31. This paragraph shall not apply to the~~
18 ~~taxable year of a corporation if—~~

19 “(A) such corporation is the only component
20 member of such controlled group on the December
21 31 included in such corporation’s taxable year
22 which has taxable income for a taxable year includ-
23 ing such December 31, or

24 “(B) such corporation’s surtax exemption is

1 *disallowed for such taxable year under any provision*
 2 *of this subtitle.*

3 “(2) TAX TREATED AS IMPOSED BY SECTION 11,
 4 ETC.—If for the taxable year of a corporation a tax is
 5 imposed by section 11 on the taxable income of such
 6 corporation, the additional tax imposed by this sub-
 7 section shall be treated for purposes of this title as a
 8 tax imposed by section 11. If for the taxable year of
 9 a corporation a tax is imposed on the taxable income
 10 of such corporation which is computed under any other
 11 section by reference to section 11, the additional tax
 12 imposed by this subsection shall be treated for purposes
 13 of this title as imposed by such other section.

14 “(3) TAXABLE INCOME DEFINED.—For purposes
 15 of this subsection, the term ‘taxable income’ means—

16 “(A) in the case of a corporation subject to
 17 tax under section 511, its unrelated business tax-
 18 able income (within the meaning of section 512) ;

19 “(B) in the case of a life insurance company,
 20 its life insurance company taxable income (within
 21 the meaning of section 802 (b)) ;

22 “(C) in the case of a regulated investment
 23 company, its investment company taxable income
 24 (within the meaning of section 852 (b) (2)) ; and

1 “(D) in the case of a real estate investment
2 trust, its real estate investment trust taxable income
3 (within the meaning of section 857 (b) (2)).

4 “(4) SPECIAL RULES.—If for the taxable year
5 an additional tax is imposed on the taxable income of a
6 corporation by this subsection, then sections 244 (re-
7 lating to dividends received on certain preferred stock),
8 247 (relating to dividends paid on certain preferred
9 stock of public utilities), 804 (a) (3) (relating to deduc-
10 tion for partially tax-exempt interest in the case of a
11 life insurance company), and 922 (relating to special
12 deduction for Western Hemisphere trade corporations)
13 shall be applied without regard to the additional tax
14 imposed by this subsection.

15 “(c) TERMINATION OF ELECTION.—An election by a
16 controlled group of corporations under subsection (a) shall
17 terminate with respect to such group—

18 “(1) CONSENT OF THE MEMBERS.—If such group
19 files a termination of such election with respect to a
20 specified December 31, and—

21 “(A) each corporation which is a component
22 member of such group on such December 31, and

23 “(B) each other corporation which is a com-

1 ponent member of such group on any succeeding
2 December 31 before the day on which the termi-
3 nation is filed,
4 consents to such termination.

5 “(2) REFUSAL BY NEW MEMBER TO CONSENT.—
6 If on December 31 of any year such group includes a
7 component member which—

8 “(A) on the immediately preceding January
9 1 was not a member of such group, and

10 “(B) within the time and in the manner pro-
11 vided by regulations prescribed by the Secretary
12 or his delegate, files a statement that it does not
13 consent to the election.

14 “(3) CONSOLIDATED RETURNS.—If—

15 “(A) a corporation is a component member
16 (determined without regard to section 1563 (b)
17 (3)) of such group on a December 31 included
18 within a taxable year ending on or after January 1,
19 1964, and

20 “(B) such corporation is a member of an
21 affiliated group of corporations which makes a con-
22 solidated return under this chapter (sec. 1501 and
23 following) for such taxable year.

1 “(4) CONTROLLED GROUP NO LONGER IN EXIST-
2 ENCE.—If such group is considered as no longer in
3 existence with respect to any December 31.

4 Such termination shall be effective with respect to the
5 December 31 referred to in paragraph (1) (A), (2), (3),
6 or (4), as the case may be.

7 “(d) ELECTION AFTER TERMINATION.—If an election
8 by a controlled group of corporations is terminated under
9 subsection (c), such group (and any successor group) shall
10 not be eligible to make an election under subsection (a) with
11 respect to any December 31 before the sixth December 31
12 after the December 31 with respect to which such termina-
13 tion was effective.

14 “(e) MANNER AND TIME OF GIVING CONSENT AND
15 MAKING ELECTION, ETC.—An election under subsection
16 (a) (1) or a termination under subsection (c) (1) (and
17 the consent of each member of a controlled group of corpo-
18 rations which is required with respect to such election
19 or termination) shall be made in such manner as the Secre-
20 tary or his delegate shall by regulations prescribe, and shall
21 be made at any time before the expiration of 3 years after—

22 “(1) in the case of such an election, the
23 date when the income tax return for the tax-
24 able year of the component member of the controlled
25 group which has the taxable year ending first on or after

the specified December ~~(181)34~~, 31 is required to be filed (without regard to any extensions of time), and

“(2) in the case of such a termination, the specified December 31 with respect to which such termination was made.

Any consent to such an election or termination, and a failure by a component member to file a statement that it does not consent to an election under this section, shall be deemed to be a consent to the application of subsection (g) (1) (relating to tolling of statute of limitations on assessment of deficiencies).

“(f) SPECIAL RULES.—For purposes of this section—

“(1) CONTINUING AND SUCCESSOR CONTROLLED GROUPS.—The determination of whether a controlled group of corporations—

“(A) is considered as no longer in existence with respect to any December 31, or

“(B) is a successor to another controlled group of corporations (and the effect of such determination with respect to any election or termination),

shall be made under regulations prescribed by the Secretary or his delegate. For purposes of subparagraph (B), such regulations shall be based on the continuation (or termination) of predominant equitable ownership.

1 “(2) CERTAIN SHORT TAXABLE YEARS.—If one or
 2 more corporations have short taxable years which do not
 3 include a December 31 and are component members of
 4 a controlled group of corporations with respect to such
 5 taxable years (determined by applying section 1563 (b)
 6 as if the last day of each such taxable year were sub-
 7 stituted for December 31), then an election by such
 8 group under this section shall apply with respect to
 9 such corporations with respect to such taxable years if—

10 “(A) such election is in effect with respect to
 11 both the December 31 immediately preceding such
 12 taxable years and the December 31 immediately
 13 succeeding such taxable years, or

14 “(B) such election is in effect with respect to
 15 the December 31 immediately preceding or succeed-
 16 ing such taxable years and each such corporation
 17 files a consent to the application of such election
 18 to its short taxable year at such time and in such
 19 manner as the Secretary or his delegate shall pre-
 20 scribe by regulations.

21 (182)~~“(g) TOLLING OF STATUTE OF LIMITATIONS.—In~~
 22 any case in which a controlled group of corporations makes
 23 an election or termination under this section—

24 ~~“(1) the statutory period for assessment of any~~
 25 deficiency against a corporation which is a component

1 member of such group for any taxable year, to the
 2 extent such deficiency is attributable to the application
 3 of this part, shall not expire before the expiration of
 4 one year after the date such election or termination
 5 is made; and

6 “(2) if credit or refund of any overpayment of tax
 7 by a corporation which is a component member of such
 8 group for any taxable year is prevented, at any time on
 9 or before the expiration of one year after the date such
 10 election or termination is made, by the operation of any
 11 law or rule of law, credit or refund of such overpayment
 12 may, nevertheless, be allowed or made, to the extent
 13 such overpayment is attributable to the application of
 14 this part, if claim therefor is filed on or before the ex-
 15 piration of such one-year period.

16 “(g) *TOLLING OF STATUTE OF LIMITATIONS.*— In any
 17 case in which a controlled group of corporations makes an
 18 election or termination under this section, the statutory
 19 period—

20 “(1) for assessment of any deficiency against a cor-
 21 poration which is a component member of such group
 22 for any taxable year, to the extent such deficiency is at-
 23 tributable to the application of this part, shall not expire
 24 before the expiration of one year after the date such elec-
 25 tion or termination is made; and

1 “(2) for allowing or making credit or refund of
 2 any overpayment of tax by a corporation which is a
 3 component member of such group for any taxable year,
 4 to the extent such credit or refund is attributable to the
 5 application of this part, shall not expire before the expi-
 6 ration of one year after the date such election or termi-
 7 nation is made.

8 **“SEC. 1563. DEFINITIONS AND SPECIAL RULES.**

9 “(a) CONTROLLED GROUP OF CORPORATIONS.—For
 10 purposes of this part, the term ‘controlled group of corpora-
 11 tions’ means any group of—

12 “(1) PARENT-SUBSIDIARY CONTROLLED GROUP.—
 13 One or more chains of corporations connected through
 14 stock ownership with a common parent corporation if—

15 “(A) stock possessing at least 80 percent of
 16 the total combined voting power of all classes of
 17 stock entitled to vote or at least 80 percent of the
 18 total value of shares of all classes of stock of each of
 19 the corporations, except the common parent cor-
 20 poration, is owned (within the meaning of subsec-
 21 tion (d) (1)) by one or more of the other corpora-
 22 tions; and

23 “(B) the common parent corporation owns
 24 (within the meaning of subsection (d) (1))
 25 stock possessing at least 80 percent of the total com-

1 bined voting power of all classes of stock entitled to
 2 vote or at least 80 percent of the total value of
 3 shares of all classes of stock of at least one of the
 4 other corporations, excluding, in computing such
 5 voting power or value, stock owned directly by
 6 such other corporations.

7 “(2) BROTHER-SISTER CONTROLLED GROUP.—
 8 Two or more corporations if stock possessing at least
 9 80 percent of the total combined voting power of all
 10 classes of stock entitled to vote or at least 80 percent of
 11 the total value of shares of all classes of stock of each
 12 of the corporations is owned (within the meaning of
 13 subsection (d) (2)) by one person who is an individ-
 14 ual, estate, or trust.

15 “(3) COMBINED GROUP.—Three or more corpora-
 16 tions each of which is a member of a group of corpora-
 17 tions described in paragraph (1) or (2), and one of
 18 which—

19 “(A) is a common parent corporation included
 20 in a group of corporations described in paragraph
 21 (1), and also

22 “(B) is included in a group of corporations
 23 described in paragraph (2).

24 “(4) CERTAIN INSURANCE COMPANIES.—Two
 25 or more insurance companies subject to taxation under

1 section 802 which are members of a controlled group
2 of corporations described in paragraph (1), (2), or
3 (3). Such insurance companies shall be treated as a con-
4 trolled group of corporations separate from any other cor-
5 porations which are members of the controlled group of
6 corporations described in paragraph (1), (2), or (3).

7 “(b) COMPONENT MEMBER.—

8 “(1) GENERAL RULE.—For purposes of this part,
9 a corporation is a component member of a controlled
10 group of corporations on a December 31 of any taxable
11 year (and with respect to the taxable year which in-
12 cludes such December 31) if such corporation—

13 “(A) is a member of such controlled group of
14 corporations on the December 31 included in such
15 year and is not treated as an excluded member
16 under paragraph (2), or

17 “(B) is not a member of such controlled group
18 of corporations on the December 31 included in such
19 year but is treated as an additional member under
20 paragraph (3).

21 “(2) EXCLUDED MEMBERS.—A corporation which
22 is a member of a controlled group of corporations on
23 December 31 of any taxable year shall be treated as an
24 excluded member of such group for the taxable year
25 including such December 31 if such corporation—

1 “(A) is a member of such group for less than
2 one-half the number of days in such taxable year
3 which precede such December 31,

4 “(B) is exempt from taxation under section
5 501 (a) (except a corporation which is subject to
6 tax on its unrelated business taxable income under
7 section 511) for such taxable year,

8 “(C) is a foreign corporation subject to tax
9 under section 881 for such taxable year,

10 “(D) is an insurance company subject to
11 taxation under section 802 or section 821 (other
12 than an insurance company which is a member of a
13 controlled group described in subsection (a) (4)),
14 or

15 “(E) is a franchised corporation, as defined
16 in subsection (f) (4) .

17 “(3) ADDITIONAL MEMBERS.—A corporation
18 which—

19 “(A) was a member of a controlled group of
20 corporations at any time during a calendar year,

21 “(B) is not a member of such group on De-
22 cember 31 of such calendar year, and

23 “(C) is not described, with respect to such
24 group, in subparagraph (B), (C), (D), or (E)
25 of paragraph (2) ,

1 shall be treated as an additional member of such group
 2 on December 31 for its taxable year including such
 3 December 31 if it was a member of such group for
 4 one-half (or more) of the number of days in such tax-
 5 able year which precede such December 31.

6 “(4) OVERLAPPING GROUPS.—If a corporation is
 7 a component member of more than one controlled group
 8 of corporations with respect to any taxable year, such
 9 corporation shall be treated as a component member of
 10 only one controlled group. The determination as to the
 11 group of which such corporation is a component member
 12 shall be made under regulations prescribed by the Secre-
 13 tary or his delegate which are consistent with the pur-
 14 poses of this part.

15 “(c) CERTAIN STOCK EXCLUDED.—

16 “(1) GENERAL RULE.—For purposes of this part,
 17 the term ‘stock’ does not include—

18 “(A) nonvoting stock which is limited and
 19 preferred as to dividends,

20 “(B) treasury stock, and

21 “(C) stock which is treated as ‘excluded stock’
 22 under paragraph (2).

23 “(2) STOCK TREATED AS ‘EXCLUDED STOCK’.—

24 “(A) PARENT-SUBSIDIARY CONTROLLED
 25 GROUP.—For purposes of subsection (a) (1), if a

corporation (referred to in this paragraph as 'parent corporation') owns (within the meaning of subsections (d) (1) and (e) (4)), 50 percent or more of the total combined voting power of all classes of stock entitled to vote or 50 percent or more of the total value of shares of all classes of stock in another corporation (referred to in this paragraph as 'subsidiary corporation'), the following stock of the subsidiary corporation shall be treated as excluded stock—

“(i) stock in the subsidiary corporation held by a trust which is part of a plan of deferred compensation for the benefit of the employees of the parent corporation or the subsidiary corporation,

“(ii) stock in the subsidiary corporation owned by an individual (within the meaning of subsection (d) (2) (183), ~~but not including~~ stock owned by the parent corporation which is ~~constructively owned by such individual~~ who is a principal stockholder or officer of the parent corporation. For purposes of this clause, the term 'principal stockholder' of a corporation means an individual who owns (within the

1 meaning of subsection (d) (2)) 5 percent or
 2 more of the total combined voting power of all
 3 classes of stock entitled to vote or 5 percent
 4 or more of the total value of shares of all
 5 classes of stock in such (184) ~~corporation~~; *cor-*
 6 *poration*, or

7 “(iii) stock in the subsidiary corporation
 8 owned (within the meaning of subsection (d)
 9 (2)) by an employee of the subsidiary corpora-
 10 tion if such stock is subject to conditions which
 11 run in favor of such parent (or subsidiary) cor-
 12 poration and which substantially restrict or limit
 13 the employee’s right (or if the employee con-
 14 structively owns such stock, the direct owner’s
 15 right) to dispose of such stock.

16 “(B) BROTHER-SISTER CONTROLLED GROUP.—
 17 For purposes of subsection (a) (2) , if a person who
 18 is an individual, estate, or trust (referred to in this
 19 paragraph as ‘common owner’) owns (within the
 20 meaning of subsection (d) (2)), 50 percent or
 21 more of the total combined voting power of all
 22 classes of stock entitled to vote or 50 percent or
 23 more of the total value of shares of all classes of
 24 stock in a corporation, the following stock of such
 25 corporation shall be treated as excluded stock—

1 “(i) stock in such corporation held by
 2 an employees’ trust described in section 401 (a)
 3 which is exempt from tax under section 501
 4 (a), if such trust is for the benefit of the em-
 5 ployees of such corporation, or

6 “(ii) stock in such corporation owned
 7 (within the meaning of subsection (d) (2)) by
 8 an employee of the corporation if such stock is
 9 subject to conditions which run in favor of such
 10 common owner (or such corporation) and
 11 which substantially restrict or limit the em-
 12 ployee’s right (or if the employee construc-
 13 tively owns such stock, the direct owner’s
 14 right) to dispose of such stock. If a condition
 15 which limits or restricts the employee’s right
 16 (or the direct owner’s right) to dispose of such
 17 stock also applies to the stock held by the com-
 18 mon owner pursuant to a bona fide reciprocal
 19 stock purchase arrangement, such condition
 20 shall not be treated as one which restricts or
 21 limits the employee’s right to dispose of such
 22 stock.

23 “(d) RULES FOR DETERMINING STOCK OWNERSHIP.—

24 “(1) PARENT-SUBSIDIARY CONTROLLED GROUP.—

25 For purposes of determining whether a corporation

1 is a member of a parent-subsidary controlled group
 2 of corporations (within the meaning of subsection
 3 (a) (1)), stock owned by a corporation means—

4 “(A) stock owned directly by such corpora-
 5 tion, and

6 “(B) stock owned with the application of sub-
 7 section (e) (1).

8 “(2) BROTHER-SISTER CONTROLLED GROUP.—

9 For purposes of determining whether a corporation is
 10 a member of a brother-sister controlled group of
 11 corporations (within the meaning of subsection (a)
 12 (2)), stock owned by a person who is an individual,
 13 estate, or trust means—

14 “(A) stock owned directly by such person,
 15 and

16 “(B) stock owned with the application of
 17 subsection (e).

18 “(e) CONSTRUCTIVE OWNERSHIP.—

19 “(1) OPTIONS.—If any person has an option to
 20 acquire stock, such stock shall be considered as owned by
 21 such person. For purposes of this paragraph, an option
 22 to acquire such an option, and each one of a series of
 23 such options, shall be considered as an option to acquire
 24 such stock.

25 “(2) ATTRIBUTION FROM PARTNERSHIPS.—Stock

owned, directly or indirectly, by or for a partnership shall be considered as owned by any partner having an interest of 5 percent or more in either the capital or profits of the partnership in proportion to his interest in capital or profits, whichever such proportion is the greater.

“(3) CONTRIBUTION FROM ESTATES OR TRUSTS.—

“(A) Stock owned, directly or indirectly, by or for an estate or trust shall be considered as owned by any beneficiary who has an actuarial interest of 5 percent or more in such stock, to the extent of such actuarial interest. For purposes of this subparagraph, the actuarial interest of each beneficiary shall be determined by assuming the maximum exercise of discretion by the fiduciary in favor of such beneficiary and the maximum use of such stock to satisfy his rights as a beneficiary.

“(B) Stock owned, directly or indirectly, by or for any portion of a trust of which a person is considered the owner under subpart E of part I of subchapter J (relating to grantors and others treated as substantial owners) shall be considered as owned by such person.

“(C) This paragraph shall not apply to stock owned by any employees' trust described in

1 section 401 (a) which is exempt from tax under
2 section 501 (a) .

3 “(4) **ATTRIBUTION FROM CORPORATIONS.**—Stock
4 owned, directly or indirectly, by or for a corporation
5 shall be considered as owned by any person who owns
6 (within the meaning of subsection (d)) 5 percent
7 or more in value of its stock in that proportion which
8 the value of the stock which such person so owns bears
9 to the value of all the stock in such corporation.

10 “(5) **SPOUSE.**—An individual shall be considered
11 as owning stock in a corporation owned, directly or indi-
12 rectly, by or for his spouse (other than a spouse who is
13 legally separated from the individual under a decree of
14 divorce whether interlocutory or final, or a decree of
15 separate maintenance), except in the case of a corpora-
16 tion with respect to which each of the following condi-
17 tions is satisfied for its taxable year—

18 “(A) The individual does not, at any time
19 during such taxable year, own directly any stock
20 in such corporation;

21 “(B) The individual is not a director or em-
22 ployee and does not participate in the management
23 of such corporation at any time during such taxable
24 year;

25 “(C) Not more than 50 percent of such corpo-

ration's gross income for such taxable year was derived from royalties, rents, dividends, interest, and annuities; and

“(D) ~~(185)~~The *Such* stock in such corporation is not, at any time during such taxable year, subject to conditions which substantially restrict or limit the spouse's right to dispose of such stock and which run in favor of the individual or his children who have not attained the age of 21 years.

“(6) CHILDREN, GRANDCHILDREN, PARENTS, AND GRANDPARENTS.—

“(A) MINOR CHILDREN.—An individual shall be considered as owning stock owned, directly or indirectly, by or for his children who have not attained the age of 21 years, and, if the individual has not attained the age of 21 years, the stock owned, directly or indirectly, by or for his parents.

“(B) ADULT CHILDREN AND GRANDCHILDREN.—An individual who owns (within the meaning of subsection (d) (2), but without regard to this subparagraph) more than 50 percent of the total combined voting power of all classes of stock entitled to vote or more than 50 percent of the total value of shares of all classes of stock in a corporation shall be considered as owning the stock

1 in such corporation owned, directly or indirectly,
2 by or for his parents, grandparents, grandchildren,
3 and children who have attained the age of 21 years.

4 For purposes of this section, a legally adopted child of an
5 individual shall be treated as a child of such individual by
6 blood.

7 “(f) OTHER DEFINITIONS AND RULES.—

8 “(1) EMPLOYEE DEFINED.—For purposes of this
9 section the term ‘employee’ has the same meaning such
10 term is given in section 3306 (i) .

11 “(2) OPERATING RULES.—

12 “(A) IN GENERAL.—Except as provided in
13 subparagraph (B), stock constructively owned by
14 a person by reason of the application of paragraph
15 (1), (2), (3), (4), (5), or (6) of subsection
16 (e) shall, for purposes of applying such paragraphs,
17 be treated as actually owned by such person.

18 “(B) MEMBERS OF FAMILY.—Stock construc-
19 tively owned by an individual by reason of the ap-
20 plication of paragraph (5) or (6) of subsection
21 (e) shall not be treated as owned by him for pur-
22 poses of again applying such paragraphs in order
23 to make another the constructive owner of such
24 stock.

1 “(3) SPECIAL RULES.—For purposes of this
2 section—

3 “(A) If stock may be considered as owned by
4 a person under subsection (e) (1) and under
5 any other paragraph of subsection (c), it shall be
6 considered as owned by him under subsection
7 (e) (1).

8 “(B) If stock is owned (within the meaning
9 of subsection (d)) by two or more persons, such
10 stock shall be considered as owned by the person
11 whose ownership of such stock results in the cor-
12 poration being a component member of a controlled
13 group. If by reason of the preceding sentence, a
14 corporation would (but for this sentence) become a
15 component member of two controlled groups, it
16 shall be treated as a component member of one
17 controlled group. The determination as to the
18 group of which such corporation is a component
19 member shall be made under regulations prescribed
20 by the Secretary or his delegate which are con-
21 sistent with the purposes of this part.

22 **(186)**“(C) *If stock is owned by a person within the*
23 *meaning of subsection (d) and such ownership*
24 *results in the corporation being a component mem-*

1 *ber of a controlled group, such stock shall not be*
 2 *treated as excluded stock under subsection (c)(2),*
 3 *if by reason of treating such stock as excluded stock*
 4 *the result is that such corporation is not a component*
 5 *member of a controlled group of corporations.*

6 “(4) FRANCHISED CORPORATION.—If—

7 “(A) a parent corporation (as defined in sub-
 8 section (c) (2) (A)), or a common owner (as de-
 9 fined in subsection (c) (2) (B)), of (187)*a cor-*
 10 *poration which is a member of a controlled group of*
 11 *corporations is under a duty (arising out of a writ-*
 12 *ten agreement) to sell stock of (188)*a such* corpo-*
 13 *ration (referred to in this paragraph as ‘franchised*
 14 *corporation’)* which is franchised to sell the products
 15 of another member, or the common owner, of such
 16 controlled group;

17 “(B) such stock is to be sold to an employee
 18 (or employees) of such franchised corporation pur-
 19 suant to a bona fide plan designed to eliminate the
 20 stock ownership of the parent corporation or of the
 21 common owner in the franchised corporation;

22 “(C) such plan—

23 “(i) provides a reasonable selling price for
 24 such stock, and

25 “(ii) requires that a portion of the em-

1 ployee's share of the profits of such corporation
2 (whether received as compensation or as a
3 dividend) be applied to the purchase of such
4 stock (or the purchase of notes, bonds, de-
5 bentures or other similar evidence of indebted-
6 ness of such franchised corporation held by
7 such parent corporation or common owner) ;

8 “(D) such employee (or employees) owns
9 directly more than 20 percent of the total value
10 of shares of all classes of stock in such franchised
11 corporation ;

12 “(E) more than 50 percent of the inventory
13 of such franchised corporation is acquired from
14 members of the controlled group, the common
15 owner, or both ; and

16 “(F) all of the conditions contained in sub-
17 paragraphs (A), (B), (C), (D), and (E) have
18 been met for one-half (or more) of the number
19 of days preceding the December 31 included within
20 the taxable year (or if the taxable year does not
21 include December 31, the last day of such year)
22 of the franchised corporation,

23 then such franchised corporation shall be treated as an
24 excluded member of such group, under subsection (b)
25 (2) , for such taxable year.”

1 (b) DISALLOWANCE OF SURTAX EXEMPTION AND
 2 ACCUMULATED EARNINGS CREDIT.—Section 1551 (relat-
 3 ing to disallowance of surtax exemption and accumulated
 4 earnings credit) is amended to read as follows:

5 “SEC. 1551. DISALLOWANCE OF SURTAX EXEMPTION AND
 6 ACCUMULATED EARNINGS CREDIT.

7 “(a) IN GENERAL.—If—

8 “(1) any corporation transfers, on or after Janu-
 9 ary 1, 1951, and on or before June 12, 1963, all or
 10 part of its property (other than money) to a transferee
 11 corporation,

12 “(2) any corporation transfers, directly or indi-
 13 rectly, after June 12, 1963, all or part of its property
 14 (other than money) to a transferee corporation, or

15 “(3) five or fewer individuals who are in control
 16 of a corporation transfer, directly or indirectly, after
 17 June 12, 1963, property (other than money) to a
 18 transferee corporation,

19 and the transferee corporation was created for the purpose
 20 of acquiring such property or was not actively engaged in
 21 business at the time of such acquisition, and if after such
 22 transfer the transferor or transferors are in control of such
 23 transferee corporation during any part of the taxable year
 24 of such transferee corporation, then for such taxable year of
 25 such transferee corporation the Secretary or his delegate

1 may (except as may be otherwise determined under
 2 subsection (d)) disallow the surtax exemption (as defined
 3 in section 11 (d)), or the \$100,000 accumulated earnings
 4 credit provided in paragraph (2) or (3) of section 535 (c),
 5 unless such transferee corporation shall establish by the clear
 6 preponderance of the evidence that the securing of such
 7 exemption or credit was not a major purpose of such
 8 transfer.

9 “(b) CONTROL.—For purposes of subsection (a), the
 10 term ‘control’ means—

11 “(1) With respect to a transferee corporation de-
 12 scribed in subsection (a) (1) or (2), the ownership by
 13 the transferor corporation, its shareholders, or both, of
 14 stock possessing at least 80 percent of the total combined
 15 voting power of all classes of stock entitled to vote or at
 16 least 80 percent of the total value of shares of all classes
 17 of the stock; or

18 “(2) With respect to each corporation described in
 19 subsection (a) (3), the ownership by the five or fewer
 20 individuals described in such subsection of stock possess-
 21 ing—

22 “(A) at least 80 percent of the total combined
 23 voting power of all classes of stock entitled to vote or
 24 at least 80 percent of the total value of shares of all
 25 classes of the stock of each corporation, and

1 “(B) more than 50 percent of the total combined
 2 voting power of all classes of stock entitled to vote
 3 or ~~(189)~~*at least more than* 50 percent of the total
 4 value of shares of all classes of stock of each corpora-
 5 tion, taking into account the stock ownership of each
 6 such individual only to the extent such stock owner-
 7 ship is identical with respect to each such corpora-
 8 tion.

9 For purposes of this subsection, section 1563 (e) shall apply
 10 in determining the ownership of stock.

11 ~~(190)“(e) CORPORATIONS ELECTING MULTIPLE SURTAX~~
 12 ~~EXEMPTIONS.—If the surtax exemption is disallowed to a~~
 13 ~~transferee corporation for any taxable year, section 1562(b)~~
 14 ~~shall not apply with respect to such transferee corporation~~
 15 ~~for such taxable year.~~

16 ~~(191)“(d) (c) AUTHORITY OF THE SECRETARY UNDER~~
 17 ~~THIS SECTION.—The provisions of section 269 (b), and the~~
 18 ~~authority of the Secretary under such section, shall, to the ex-~~
 19 ~~tent not inconsistent with the provisions of this section, be~~
 20 ~~applicable to this section.”~~

21 (c) TECHNICAL AMENDMENTS.—

22 (1) AMENDMENT OF SECTION 802.—The second
 23 sentence of section 802 (a) (1) (relating to tax on life
 24 insurance companies) is amended to read as follows:

25 “Such tax shall consist of a normal tax and surtax com-

puted as provided in section 11 as though the life insurance company taxable income were the taxable income referred to in section 11.”

(2) AMENDMENT OF SECTION 269.—Section 269

(a) (relating to acquisitions made to evade or avoid ~~(192)income tax~~) is amended—

~~(A)~~ by striking out “then such deduction, credit, or other allowance shall not be allowed” at the end of the first sentence and inserting in lieu thereof “then the Secretary or his delegate may disallow such deduction, credit, or other allowance”; and

~~(B)~~ by adding at the end thereof the following new subsection:

~~“(d) CORPORATIONS ELECTING MULTIPLE SURTAX EXEMPTIONS.—If the surtax exemption is disallowed to an acquired corporation under subsection (a) for any taxable year, section 1562(b) shall not apply with respect to such acquired corporation for such taxable year.”~~

income tax) is amended by striking out “then such deduction, credit, or other allowance shall not be allowed” at the end of the first sentence and inserting in lieu thereof “then the Secretary or his delegate may disallow such deduction, credit, or other allowance”.

(3) SPECIAL RULE FOR 52-53-WEEK YEAR.—Sec-

tion 441 (f) (2) (A) (relating to effective date with respect to special rules for 52-53-week year) is amended by striking out "In any case in which the effective date or the applicability of any provision of this title is expressed in terms of taxable years beginning or ending with reference to a specified date" and inserting in lieu thereof "In any case in which the effective date or the applicability of any provision of this title is expressed in terms of taxable years beginning, including, or ending with reference to a specified date".

(4) Subchapter B of chapter 6 is amended by inserting after the heading and before the table of sections the following:

"Part I. In general.

"Part II. Certain controlled corporations.

"PART I—IN GENERAL"

(d) EFFECTIVE DATE.—The amendments made by subsections (a) and (c) shall apply with respect to taxable years ending after December 31, 1963. The amendment made by subsection (b) shall apply with respect to transfers made after June 12, 1963.

1 (193)SEC. 238. *VALIDITY OF TAX LIENS AGAINST MORT-*
 2 *GAGEES, PLEDGEES, AND PURCHASERS*
 3 *OF MOTOR VEHICLES.*

4 (a) *MORTGAGEES, PLEDGEES, AND PURCHASERS*
 5 *WITHOUT ACTUAL NOTICE OR KNOWLEDGE OF LIEN.—*

6 *Section 6323(c) (relating to exception in case of securities)*
 7 *is amended—*

8 (1) *by striking out the heading and inserting in*
 9 *lieu thereof “EXCEPTION IN CASE OF SECURITIES AND*
 10 *MOTOR VEHICLES.—”;*

11 (2) *by striking out “a security, as defined in para-*
 12 *graph (2) of this subsection,” in paragraph (1) and*
 13 *inserting in lieu thereof “a security (as defined in para-*
 14 *graph (2)) or a motor vehicle (as defined in paragraph*
 15 *(3))”;*

16 (3) *by inserting after “such security” in paragraph*
 17 *(1) “or such motor vehicle”; and*

18 (4) *by adding at the end thereof the following new*
 19 *paragraph:*

20 *“(3) DEFINITION OF MOTOR VEHICLE.—As used*

1 in this subsection, the term 'motor vehicle' means a ve-
 2 hicle (other than a house trailer) which is registered
 3 for highway use under the laws of any State or foreign
 4 country."

5 (b) *LIENS FOR ESTATE AND GIFT TAXES.*—Section
 6 6324 (relating to special liens for estate and gift taxes)
 7 is amended—

8 (1) by striking out "(relating to transfers of se-
 9 curities)" in subsections (a) and (b) and inserting in
 10 lieu thereof "(relating to securities and motor ve-
 11 hicles)"; and

12 (2) by striking out subsection (c) and inserting
 13 in lieu thereof the following:

14 “(c) *EXCEPTION IN CASE OF SECURITIES AND MOTOR*
 15 *VEHICLES.*—The lien imposed by subsection (a) or (b)
 16 shall not be valid with respect to a security (as defined in
 17 section 6323(c)(2)) or a motor vehicle (as defined in
 18 section 6323(c)(3)) as against any mortgagee, pledgee, or
 19 purchaser of any such security or motor vehicle, for an ade-
 20 quate and full consideration in money or money's worth, if
 21 at the time of such mortgage, pledge, or purchase such mort-
 22 gagee, pledgee, or purchaser is without notice or knowledge
 23 of the existence of such lien.”

1 (c) *EFFECTIVE DATE.*—The amendments made by this
2 section shall apply only with respect to mortgages, pledges,
3 and purchases made after the date of the enactment of this
4 Act.

5 (194)SEC. 239. EARNED INCOME OF CITIZENS OF THE
6 UNITED STATES FROM SOURCES WITH-
7 OUT THE UNITED STATES.

8 (a) *REDUCTION OF CEILING ON EXEMPTION.*—Section
9 911(c)(1) (relating to earned income from sources without
10 the United States) is amended—

11 (1) by striking out, in subparagraph (A) thereof,
12 “\$20,000” and inserting in lieu thereof “\$40,000”; and
13 (2) by striking out, in subparagraph (B) thereof,
14 “\$35,000” and inserting in lieu thereof “\$6,000”.

15 (b) *EFFECTIVE DATE.*—The amendments made by sub-
16 section (a) shall be applicable only with respect to taxable
17 years beginning after December 31, 1963.

18 (195) SEC. 240. HEADS OF HOUSEHOLDS.

19 (a) Section 1(b) (relating to definition of head of
20 household) is amended by striking out the word “either—”
21 in the first sentence of paragraph (2) and subparagraph
22 (A) and subparagraph (B) of paragraph (2) of sub-
23 section (b) and inserting in lieu thereof: “maintains a house-

1 hold which constitutes for such taxable year the principal
 2 place of abode of any person who is a dependent of the tax-
 3 payer if the taxpayer is entitled to a deduction for the taxable
 4 year for such person under section 151.”

5 (b) The amendments made by subsection (a) shall apply
 6 to taxable years beginning after December 31, 1963.

7 **(196)SEC. 241. LOSSES ARISING FROM CONFISCATION**
 8 **OF PROPERTY BY CUBA.**

9 Section 165 (relating to losses) is amended by relettering
 10 subsection (i) as subsection (j) and by adding the following
 11 new subsection (i):

12 “(i) **PROPERTY CONFISCATED BY CUBA.**—For pur-
 13 poses of subsection (c)(3), losses of property which arise
 14 from expropriation, intervention in, or confiscation by Cuba
 15 shall be deemed to be losses from ‘other casualty’.”

16 **(197)SEC. 242. CREDIT OR REFUND OF SELF-EMPLOY-**
 17 **MENT TAX.**

18 (a) Chapter 65 (relating to abatements, credits, and
 19 refunds) is amended by adding at the end of subchapter B
 20 thereof, the following new section:

21 **“SEC. 6424. CREDIT OR REFUND OF SELF-EMPLOYMENT**
 22 **TAX IN CERTAIN CASES.**

23 “If, by reason of an agreement made pursuant to section
 24 218 of the Social Security Act, the self-employment income
 25 (as defined in section 1402(b)) of any individual is, for

1 any year with respect to which the period of limitation for
 2 filing claim for credit or refund has expired, different from
 3 what it would be but for such agreement, then, notwith-
 4 standing any other law or rule of law (other than section
 5 7122 relating to compromises), such individual shall be
 6 entitled to a credit or refund of so much of the tax imposed
 7 by chapter 2 (relating to tax on self-employment income)
 8 as was imposed upon such difference, but only if claim there-
 9 for is filed within 3 years from the date on which the agree-
 10 ment under such section 218 was entered into.”

11 (b) The table of sections for subchapter B of chapter
 12 65 is amended by adding at the end thereof, the following:

*“Sec. 6424. Credit or refund of self-employment tax in cer-
 tain cases.”*

13 **(198)SEC. 243. EXTENSION OF TIME FOR PAYMENT OF**
 14 **ESTATE TAX ON VALUE OF REVERSION-**
 15 **ARY OR REMAINDER INTEREST IN**
 16 **PROPERTY.**

17 (a) *EXTENSION UNDER 1954 CODE.*—Section 6163

18 (b) (relating to extension of time for paying estate tax on
 19 value of reversionary or remainder interest in property to
 20 prevent undue hardship) is amended by striking out “not
 21 in excess of 2” and inserting in lieu thereof “or periods not
 22 in excess of 3”.

23 (b) *EXTENSION UNDER 1939 CODE.*—Section 925 of

1 *the Internal Revenue Code of 1939 (relating to periods of*
 2 *extension of time for paying estate tax attributable to future*
 3 *interests) is amended by striking out “not in excess of 2”*
 4 *and inserting in lieu thereof “or periods not in excess of 3”.*

5 *(c) EFFECTIVE DATE.—*

6 *(1) The amendment made by subsection (a) shall*
 7 *apply in the case of any reversionary or remainder in-*
 8 *terest only if the time for payment of the tax under*
 9 *chapter 11 of the Internal Revenue Code 1954 attribut-*
 10 *able to such interest, including any extensions thereof,*
 11 *has not expired on the date of the enactment of this Act.*

12 *(2) The amendment made by subsection (b) shall*
 13 *apply in the case of any reversionary or remainder in-*
 14 *terest only if the time for payment of the tax under*
 15 *chapter 3 of the Internal Revenue Code of 1939 has*
 16 *not expired on the date of enactment of this Act.*

17 **(199)SEC. 244. CROP INSURANCE PROCEEDS.**

18 *Section 451 (relating to general rule for taxable year of*
 19 *inclusion) is amended by adding the following subsection:*

20 *“(c) In the case of insurance proceeds received as a*
 21 *result of destruction or damage to crops, a taxpayer reporting*
 22 *on the cash basis of accounting may elect to include such pro-*
 23 *ceeds in income for the year following the year of destruction*
 24 *or damage provided he establishes to the satisfaction of the*
 25 *Secretary or his delegate that, under his practice, income*

1 from such crops would not have been reported in the year in
2 which raised.”

3 **(200)SEC. 245. TRANSPORTATION OF DISABLED INDIVID-**
4 **UAL TO AND FROM WORK.**

5 (a) *DEDUCTION ALLOWED FOR EXPENSES OF TRANS-*
6 *PORTATION OF DISABLED INDIVIDUALS TO AND FROM*
7 *WORK.*—Part VII of subchapter B of chapter 1 (relating to
8 additional itemized deductions for individuals), as amended
9 by sections 213(a)(1) and 214(a) of this Act, is further
10 amended by redesignating section 219 as section 220 and by
11 inserting after section 218 the following new section:

12 **“SEC. 219. TRANSPORTATION OF DISABLED INDIVIDUAL**
13 **TO AND FROM WORK.**

14 “(a) *GENERAL RULE.*—In the case of a disabled indi-
15 vidual, there shall be allowed as a deduction expenses paid
16 during the taxable year for transportation to and from work
17 to the extent that such expenses do not exceed \$600.

18 “(b) *DISABLED INDIVIDUAL DEFINED.*—For purposes
19 of subsection (a), the term ‘disabled individual’ means an
20 individual who is blind (as defined in section 151(d)(3))
21 or who has lost the use of a leg, both legs, both arms, or is
22 otherwise disabled, to such an extent that he is unable during
23 the entire taxable year to use, without undue hardship or
24 danger, a streetcar, bus, subway, train, or similar form of
25 public transportation, as a means of traveling to and from

1 work. A taxpayer claiming a deduction under this section
 2 shall submit such proof that he is a disabled individual as the
 3 Secretary of the Treasury or his delegate may by regulations
 4 prescribe. The regulations so prescribed shall include the
 5 following provisions:

6 “(1) Proof of disability shall be certified by a
 7 physician authorized to do so by any county (or equiva-
 8 lent) medical society.

9 “(2) The certifying physician shall specify the
 10 nature, cause, and physically limiting effects of the
 11 disability.”

12 (b) *TECHNICAL AMENDMENT.*—The table of sections
 13 for part VII of subchapter B of chapter 1 (as amended by
 14 section 213(a)(2) of this Act) is further amended by strik-
 15 ing out—

“Sec. 219. Cross references.”

16 and inserting in lieu thereof the following:

“Sec. 219. Transportation of disabled individual to and
 from work.

“Sec. 220. Cross references.”

17 (c) *EFFECTIVE DATE.*—The amendments made by this
 18 section shall apply only with respect to taxable years ending
 19 after the date of the enactment of this Act.

1 **(201)SEC. 246. ADDITIONAL PERSONAL EXEMPTIONS**
 2 **FOR DISABILITY.**

3 (a) *IN GENERAL.*—Section 151 (relating to allowance
 4 of deductions for personal exemptions) is amended by adding
 5 at the end thereof the following new subsection:

6 “(f) *ADDITIONAL EXEMPTIONS FOR DISABILITY.*—

7 “(1) *FOR TAXPAYER.*—An additional exemption of
 8 \$600 for the taxpayer if he is a disabled individual.

9 “(2) *FOR SPOUSE.*—An additional exemption of
 10 \$600 for the spouse of the taxpayer if the spouse is a
 11 disabled individual and if the taxpayer is entitled to an
 12 exemption under subsection (b) for such spouse.

13 “(3) *DISABLED INDIVIDUAL DEFINED.*—The term
 14 ‘disabled individual’ means an individual who, during
 15 the entire taxable year of the taxpayer, has a permanent
 16 loss or permanent loss of use of one or more of the
 17 extremities, or is otherwise under a physical or mental
 18 disability which can be expected to result in death or
 19 to be of long-continued and indefinite duration and
 20 which renders him unable to engage in any substantial
 21 gainful activity. A taxpayer claiming a deduction un-
 22 der this subsection shall submit such proof that he (or

1 his spouse) is a disabled individual as the Secretary
 2 of the Treasury or his delegate may by regulations pre-
 3 scribe. The regulations so prescribed shall include the
 4 following provisions:

5 “(A) Proof of disability shall be certified by a
 6 physician authorized to do so by any county (or
 7 equivalent) medical society.

8 “(B) The certifying physician shall specify the
 9 nature, cause, and physically limiting effects of the
 10 disability.”

11 (b) *CONFORMING AMENDMENT.*—Section 213(c) (re-
 12 lating to medical, dental, etc., expenses) is amended—

13 (1) by striking out “(c) or (d)” and inserting in
 14 lieu thereof “(c), (d), or (f)”, and

15 (2) by striking out “age or blindness” and insert-
 16 ing in lieu thereof “age, blindness, or disability”.

17 (c) *WITHHOLDING.*—

18 (1) Paragraph (1) of section 3402(f) (relating to
 19 withholding exemptions) is amended by adding at the
 20 end thereof the following new subparagraph:

21 “(F) one additional exemption for himself if,
 22 on the basis of facts existing at the beginning of
 23 such day, there may reasonably be expected to be
 24 allowable an exemption under section 151(f)(1)
 25 (relating to the disabled) for the taxable year under

1 subtitle *A* in respect of which amounts deducted and
 2 withheld under this chapter in the calendar year in
 3 which such day falls are allowed as a credit.”

4 (2) Subparagraph (D) of such paragraph (1) is
 5 amended (A) by striking out “(B), or (C),” and in-
 6 serting in lieu thereof “(B), (C), or (F),”, and
 7 (B) by striking out “and” at the end thereof.

8 (3) Subparagraph (E) of such paragraph (1) is
 9 amended by striking out the period at the end and in-
 10 serting in lieu thereof “; and”.

11 (d) *EFFECTIVE DATE*.—The amendments made by sub-
 12 sections (a) and (b) shall apply only with respect to tax-
 13 able years ending after the date of enactment of this Act
 14 and the amendments made by subsection (c) shall apply
 15 only with respect to payment of wages made after such date.

16 **(202)SEC. 247. TIME FOR FILING CLAIM FOR REFUND OF**
 17 **TAXES PAID FOR GASOLINE USED ON**
 18 **FARMS.**

19 Section 6420(b) (relating to time for filing claim for
 20 refund on taxes paid for gasoline used on farms) is amended
 21 by inserting immediately before the period in the second
 22 sentence thereof the following: “; except that the Secre-
 23 tary or his delegate may allow a claim filed after such date
 24 if the claimant had good cause for failing to file on or before
 25 such date”.

1 **(203)SEC. 248. FACILITIES TO CONTROL WATER OR AIR**
 2 **POLLUTION.**

3 (a) *IN GENERAL.*—Section 46(c) (relating to defini-
 4 tion of qualified investment for purposes of investment credit
 5 in certain depreciable property) is amended by adding after
 6 paragraph (4) thereof the following new paragraph:

7 “(5) *FACILITIES TO CONTROL WATER AND AIR*
 8 *POLLUTION.*—

9 “(A) *In the case of section 38 property which*
 10 *consists of facilities or equipment to control water or*
 11 *air pollution, the amount of the qualified investment*
 12 *shall be twice the amount determined under para-*
 13 *graph (1).*

14 “(B) *For purposes of subparagraph (A), the*
 15 *term ‘facilities or equipment to control water pol-*
 16 *lution’ means a facility or equipment used to control*
 17 *water pollution by removing, altering, or disposing*
 18 *of wastes from any type of manufacturing or mining*
 19 *process, including the necessary intercepting sewers,*
 20 *outfall sewers, pumping, power, and other equip-*
 21 *ment, and their appurtenances.*

22 “(C) *For purposes of subparagraph (A), the*
 23 *term ‘facilities or equipment to control air pollution’*

means a facility or equipment used to control atmospheric pollution or contamination by removing, altering, or disposing of atmospheric pollutants and contaminants from any type of manufacturing or mining process.”

(b) *EFFECTIVE DATE.*—The amendment made by subsection (a) shall apply to taxable years beginning after December 31, 1963.

Title III—Optional Tax On Individuals; Collection Of Income Tax At Source On Wages

SEC. 301. OPTIONAL TAX IF ADJUSTED GROSS INCOME IS LESS THAN \$5,000.

(a) *OPTIONAL TAX.*—Section 3 (relating to optional tax if adjusted gross income is less than \$5,000) is amended to read as follows:

“SEC. 3. OPTIONAL TAX IF ADJUSTED GROSS INCOME IS LESS THAN \$5,000.

“(a) *TAXABLE YEARS BEGINNING IN 1964.*—In lieu of the tax imposed by section 1, there is hereby imposed for each taxable year beginning on or after January 1, 1964, and before January 1, 1965, on the taxable income of every individual whose adjusted gross income for such year is less

- 1 than \$5,000 and who has elected for such year to pay the
- 2 tax imposed by this section, a tax as follows:

“Table I—Single Person—NOT Head of Household

“Taxable Years Beginning in 1964

If adjusted gross income is—		And the number of exemptions is—				If adjusted gross income is—		And the number of exemptions is—						
At least	But less than	1	2	3	4 or more	At least	But less than	1	2	3	4	5	6	7 or more
		The tax is—						The tax is—						
\$0	\$900	\$0	\$0	\$0	\$0	\$2,450	\$2,475	\$261	\$140	\$26	\$0	\$0	\$0	\$0
900	925	2	0	0	0	2,475	2,500	266	144	30	0	0	0	0
925	950	6	0	0	0	2,500	2,525	270	148	34	0	0	0	0
950	975	10	0	0	0	2,525	2,550	275	152	38	0	0	0	0
975	1,000	14	0	0	0	2,550	2,575	279	156	42	0	0	0	0
1,000	1,025	18	0	0	0	2,575	2,600	284	160	46	0	0	0	0
1,025	1,050	22	0	0	0	2,600	2,625	288	165	50	0	0	0	0
1,050	1,075	26	0	0	0	2,625	2,650	293	169	54	0	0	0	0
1,075	1,100	30	0	0	0	2,650	2,675	297	173	58	0	0	0	0
1,100	1,125	34	0	0	0	2,675	2,700	302	178	62	0	0	0	0
1,125	1,150	38	0	0	0	2,700	2,725	306	182	66	0	0	0	0
1,150	1,175	42	0	0	0	2,725	2,750	311	187	70	0	0	0	0
1,175	1,200	46	0	0	0	2,750	2,775	315	191	74	0	0	0	0
1,200	1,225	50	0	0	0	2,775	2,800	320	195	78	0	0	0	0
1,225	1,250	54	0	0	0	2,800	2,825	324	200	82	0	0	0	0
1,250	1,275	58	0	0	0	2,825	2,850	329	204	86	0	0	0	0
1,275	1,300	62	0	0	0	2,850	2,875	333	208	90	0	0	0	0
1,300	1,325	66	0	0	0	2,875	2,900	338	213	94	0	0	0	0
1,325	1,350	70	0	0	0	2,900	2,925	343	217	99	0	0	0	0
1,350	1,375	74	0	0	0	2,925	2,950	348	222	103	0	0	0	0
1,375	1,400	78	0	0	0	2,950	2,975	353	226	107	0	0	0	0
1,400	1,425	82	0	0	0	2,975	3,000	358	230	111	0	0	0	0
1,425	1,450	86	0	0	0	3,000	3,050	365	237	117	0	0	0	0
1,450	1,475	90	0	0	0	3,050	3,100	374	246	125	12	0	0	0
1,475	1,500	94	0	0	0	3,100	3,150	383	255	134	20	0	0	0
1,500	1,525	99	0	0	0	3,150	3,200	392	264	142	28	0	0	0
1,525	1,550	103	0	0	0	3,200	3,250	401	273	150	36	0	0	0
1,550	1,575	107	0	0	0	3,250	3,300	410	282	158	44	0	0	0
1,575	1,600	111	0	0	0	3,300	3,350	419	291	167	52	0	0	0
1,600	1,625	115	2	0	0	3,350	3,400	428	300	176	60	0	0	0
1,625	1,650	119	6	0	0	3,400	3,450	437	309	184	68	0	0	0
1,650	1,675	123	10	0	0	3,450	3,500	446	318	193	76	0	0	0
1,675	1,700	127	14	0	0	3,500	3,550	455	327	202	84	0	0	0
1,700	1,725	132	18	0	0	3,550	3,600	464	336	211	92	0	0	0
1,725	1,750	136	22	0	0	3,600	3,650	473	345	219	101	0	0	0
1,750	1,775	140	26	0	0	3,650	3,700	482	355	228	109	0	0	0
1,775	1,800	144	30	0	0	3,700	3,750	491	365	237	117	4	0	0
1,800	1,825	148	34	0	0	3,750	3,800	500	375	246	125	12	0	0
1,825	1,850	152	38	0	0	3,800	3,850	509	385	255	134	20	0	0
1,850	1,875	156	42	0	0	3,850	3,900	518	395	264	142	28	0	0
1,875	1,900	160	46	0	0	3,900	3,950	527	405	273	150	36	0	0
1,900	1,925	165	50	0	0	3,950	4,000	536	415	282	158	44	0	0
1,925	1,950	169	54	0	0	4,000	4,050	545	425	291	167	52	0	0
1,950	1,975	173	58	0	0	4,050	4,100	554	434	300	176	60	0	0
1,975	2,000	178	62	0	0	4,100	4,150	563	443	309	184	68	0	0
2,000	2,025	182	66	0	0	4,150	4,200	572	452	318	193	76	0	0
2,025	2,050	187	70	0	0	4,200	4,250	581	461	327	202	84	0	0
2,050	2,075	191	74	0	0	4,250	4,300	590	470	336	211	92	0	0
2,075	2,100	195	78	0	0	4,300	4,350	599	479	345	219	101	0	0
2,100	2,125	200	82	0	0	4,350	4,400	608	488	355	228	109	0	0
2,125	2,150	204	86	0	0	4,400	4,450	617	497	365	237	117	4	0
2,150	2,175	208	90	0	0	4,450	4,500	626	506	375	246	125	12	0
2,175	2,200	213	94	0	0	4,500	4,550	635	515	385	255	134	20	0
2,200	2,225	217	99	0	0	4,550	4,600	644	524	395	264	142	28	0
2,225	2,250	222	103	0	0	4,600	4,650	653	533	405	273	150	36	0
2,250	2,275	226	107	0	0	4,650	4,700	662	542	415	282	158	44	0
2,275	2,300	230	111	0	0	4,700	4,750	671	551	425	291	167	52	0
2,300	2,325	235	115	2	0	4,750	4,800	680	560	435	300	176	60	0
2,325	2,350	239	119	6	0	4,800	4,850	689	569	445	309	184	68	0
2,350	2,375	243	123	10	0	4,850	4,900	698	578	455	318	193	76	0
2,375	2,400	248	127	14	0	4,900	4,950	707	587	465	327	202	84	0
2,400	2,425	252	132	18	0	4,950	5,000	716	596	475	336	211	92	0
2,425	2,450	257	136	22	0									

“Table II—Head of Household
“Taxable Years Beginning in 1964

If adjusted gross income is—		And the number of exemptions is—				If adjusted gross income is—		And the number of exemptions is—							
At least	But less than	1	2	3	4 or more	At least	But less than	1	2	3	4	5	6	7 or more	
		The tax is—						The tax is—							
\$0	\$900	\$0	\$0	\$0	\$0	\$2,450	\$2,475	\$258	\$138	\$26	\$0	\$0	\$0	\$0	
900	925	2	0	0	0	2,475	2,500	263	142	30	0	0	0	0	
925	950	6	0	0	0	2,500	2,525	267	146	34	0	0	0	0	
950	975	10	0	0	0	2,525	2,550	272	150	38	0	0	0	0	
975	1,000	14	0	0	0	2,550	2,575	276	154	42	0	0	0	0	
1,000	1,025	18	0	0	0	2,575	2,600	280	158	46	0	0	0	0	
1,025	1,050	22	0	0	0	2,600	2,625	285	162	50	0	0	0	0	
1,050	1,075	26	0	0	0	2,625	2,650	289	167	54	0	0	0	0	
1,075	1,100	30	0	0	0	2,650	2,675	293	171	58	0	0	0	0	
1,100	1,125	34	0	0	0	2,675	2,700	298	175	62	0	0	0	0	
1,125	1,150	38	0	0	0	2,700	2,725	302	180	66	0	0	0	0	
1,150	1,175	42	0	0	0	2,725	2,750	307	184	70	0	0	0	0	
1,175	1,200	46	0	0	0	2,750	2,775	311	188	74	0	0	0	0	
1,200	1,225	50	0	0	0	2,775	2,800	315	193	78	0	0	0	0	
1,225	1,250	54	0	0	0	2,800	2,825	320	197	82	0	0	0	0	
1,250	1,275	58	0	0	0	2,825	2,850	324	202	86	0	0	0	0	
1,275	1,300	62	0	0	0	2,850	2,875	328	206	90	0	0	0	0	
1,300	1,325	66	0	0	0	2,875	2,900	333	210	94	0	0	0	0	
1,325	1,350	70	0	0	0	2,900	2,925	337	215	98	0	0	0	0	
1,350	1,375	74	0	0	0	2,925	2,950	342	219	102	0	0	0	0	
1,375	1,400	78	0	0	0	2,950	2,975	347	223	106	0	0	0	0	
1,400	1,425	82	0	0	0	2,975	3,000	352	228	110	0	0	0	0	
1,425	1,450	86	0	0	0	3,000	3,050	358	234	116	4	0	0	0	
1,450	1,475	90	0	0	0	3,050	3,100	367	243	124	12	0	0	0	
1,475	1,500	94	0	0	0	3,100	3,150	375	252	132	20	0	0	0	
1,500	1,525	98	0	0	0	3,150	3,200	384	261	140	28	0	0	0	
1,525	1,550	102	0	0	0	3,200	3,250	392	269	148	36	0	0	0	
1,550	1,575	106	0	0	0	3,250	3,300	401	278	156	44	0	0	0	
1,575	1,600	110	0	0	0	3,300	3,350	410	287	164	52	0	0	0	
1,600	1,625	114	2	0	0	3,350	3,400	418	296	173	60	0	0	0	
1,625	1,650	118	6	0	0	3,400	3,450	427	304	182	68	0	0	0	
1,650	1,675	122	10	0	0	3,450	3,500	435	313	191	76	0	0	0	
1,675	1,700	126	14	0	0	3,500	3,550	444	322	199	84	0	0	0	
1,700	1,725	130	18	0	0	3,550	3,600	452	331	208	92	0	0	0	
1,725	1,750	134	22	0	0	3,600	3,650	461	340	217	100	0	0	0	
1,750	1,775	138	26	0	0	3,650	3,700	469	349	226	108	0	0	0	
1,775	1,800	142	30	0	0	3,700	3,750	478	359	234	116	4	0	0	
1,800	1,825	146	34	0	0	3,750	3,800	487	368	243	124	12	0	0	
1,825	1,850	150	38	0	0	3,800	3,850	495	378	252	132	20	0	0	
1,850	1,875	154	42	0	0	3,850	3,900	504	387	261	140	28	0	0	
1,875	1,900	158	46	0	0	3,900	3,950	512	397	269	148	36	0	0	
1,900	1,925	162	50	0	0	3,950	4,000	521	406	278	156	44	0	0	
1,925	1,950	167	54	0	0	4,000	4,050	529	415	287	164	52	0	0	
1,950	1,975	171	58	0	0	4,050	4,100	538	424	296	173	60	0	0	
1,975	2,000	175	62	0	0	4,100	4,150	546	432	304	182	68	0	0	
2,000	2,025	180	66	0	0	4,150	4,200	555	441	313	191	76	0	0	
2,025	2,050	184	70	0	0	4,200	4,250	563	449	322	199	84	0	0	
2,050	2,075	188	74	0	0	4,250	4,300	572	458	331	208	92	0	0	
2,075	2,100	193	78	0	0	4,300	4,350	581	467	340	217	100	0	0	
2,100	2,125	197	82	0	0	4,350	4,400	589	475	349	226	108	0	0	
2,125	2,150	202	86	0	0	4,400	4,450	598	484	359	234	116	4	0	
2,150	2,175	206	90	0	0	4,450	4,500	606	492	368	243	124	12	0	
2,175	2,200	210	94	0	0	4,500	4,550	615	501	378	252	132	20	0	
2,200	2,225	215	98	0	0	4,550	4,600	623	509	387	261	140	28	0	
2,225	2,250	219	102	0	0	4,600	4,650	632	518	397	269	148	36	0	
2,250	2,275	223	106	0	0	4,650	4,700	640	526	406	278	156	44	0	
2,275	2,300	228	110	0	0	4,700	4,750	649	535	416	287	164	52	0	
2,300	2,325	232	114	2	0	4,750	4,800	658	544	425	296	173	60	0	
2,325	2,350	237	118	6	0	4,800	4,850	666	552	435	304	182	68	0	
2,350	2,375	241	122	10	0	4,850	4,900	675	561	444	313	191	76	0	
2,375	2,400	245	126	14	0	4,900	4,950	683	569	454	322	199	84	0	
2,400	2,425	250	130	18	0	4,950	5,000	692	578	463	331	208	92	0	
2,425	2,450	254	134	22	0										

“Table III—Married Persons Filing JOINT Returns
“Taxable Years Beginning in 1964

If adjusted gross income is—		And the number of exemptions is—			If adjusted gross income is—		And the number of exemptions is—					
At least	But less than	2	3	4 or more	At least	But less than	2	3	4	5	6	7 or more
		The tax is—					The tax is—					
\$0	\$1,600	\$0	\$0	\$0	\$2,800	\$2,825	\$195	\$82	\$0	\$0	\$0	\$0
1,600	1,625	2	0	0	2,825	2,850	199	86	0	0	0	0
1,625	1,650	6	0	0	2,850	2,875	203	90	0	0	0	0
1,650	1,675	10	0	0	2,875	2,900	207	94	0	0	0	0
1,675	1,700	14	0	0	2,900	2,925	212	98	0	0	0	0
1,700	1,725	18	0	0	2,925	2,950	216	102	0	0	0	0
1,725	1,750	22	0	0	2,950	2,975	220	106	0	0	0	0
1,750	1,775	26	0	0	2,975	3,000	224	110	0	0	0	0
1,775	1,800	30	0	0	3,000	3,050	230	116	4	0	0	0
1,800	1,825	34	0	0	3,050	3,100	238	124	12	0	0	0
1,825	1,850	38	0	0	3,100	3,150	247	132	20	0	0	0
1,850	1,875	42	0	0	3,150	3,200	255	140	28	0	0	0
1,875	1,900	46	0	0	3,200	3,250	263	148	36	0	0	0
1,900	1,925	50	0	0	3,250	3,300	271	156	44	0	0	0
1,925	1,950	54	0	0	3,300	3,350	280	164	52	0	0	0
1,950	1,975	58	0	0	3,350	3,400	288	172	60	0	0	0
1,975	2,000	62	0	0	3,400	3,450	296	181	68	0	0	0
2,000	2,025	66	0	0	3,450	3,500	304	189	76	0	0	0
2,025	2,050	70	0	0	3,500	3,550	313	197	84	0	0	0
2,050	2,075	74	0	0	3,550	3,600	321	205	92	0	0	0
2,075	2,100	78	0	0	3,600	3,650	329	214	100	0	0	0
2,100	2,125	82	0	0	3,650	3,700	338	222	108	0	0	0
2,125	2,150	86	0	0	3,700	3,750	347	230	116	4	0	0
2,150	2,175	90	0	0	3,750	3,800	356	238	124	12	0	0
2,175	2,200	94	0	0	3,800	3,850	364	247	132	20	0	0
2,200	2,225	98	0	0	3,850	3,900	373	255	140	28	0	0
2,225	2,250	102	0	0	3,900	3,950	382	263	148	36	0	0
2,250	2,275	106	0	0	3,950	4,000	391	271	156	44	0	0
2,275	2,300	110	0	0	4,000	4,050	399	280	164	52	0	0
2,300	2,325	114	2	0	4,050	4,100	407	288	172	60	0	0
2,325	2,350	118	6	0	4,100	4,150	415	296	181	68	0	0
2,350	2,375	122	10	0	4,150	4,200	423	304	189	76	0	0
2,375	2,400	126	14	0	4,200	4,250	430	313	197	84	0	0
2,400	2,425	130	18	0	4,250	4,300	438	321	205	92	0	0
2,425	2,450	134	22	0	4,300	4,350	446	329	214	100	0	0
2,450	2,475	138	26	0	4,350	4,400	454	338	222	108	0	0
2,475	2,500	142	30	0	4,400	4,450	462	347	230	116	4	0
2,500	2,525	146	34	0	4,450	4,500	470	356	238	124	12	0
2,525	2,550	150	38	0	4,500	4,550	478	364	247	132	20	0
2,550	2,575	154	42	0	4,550	4,600	486	373	255	140	28	0
2,575	2,600	158	46	0	4,600	4,650	493	382	263	148	36	0
2,600	2,625	162	50	0	4,650	4,700	501	391	271	156	44	0
2,625	2,650	166	54	0	4,700	4,750	509	399	280	164	52	0
2,650	2,675	170	58	0	4,750	4,800	518	408	288	172	60	0
2,675	2,700	174	62	0	4,800	4,850	526	417	296	181	68	0
2,700	2,725	179	66	0	4,850	4,900	534	426	304	189	76	0
2,725	2,750	183	70	0	4,900	4,950	542	434	313	197	84	0
2,750	2,775	187	74	0	4,950	5,000	550	443	321	205	92	0
2,775	2,800	191	78	0								

“Table IV—Married Persons Filing SEPARATE Returns
“10 PERCENT STANDARD DEDUCTION
“Taxable Years Beginning in 1964

If adjusted gross income is—		And the number of exemptions is—				If adjusted gross income is—		And the number of exemptions is—							
At least	But less than	1	2	3	4 or more	At least	But less than	1	2	3	4	5	6	7	8 or more
		The tax is—						The tax is—							
\$0	\$675	\$0	\$0	\$0	\$0	\$2,325	\$2,350	\$251	\$147	\$49	\$0	\$0	\$0	\$0	\$0
675	700	3	0	0	0	2,350	2,375	255	150	52	0	0	0	0	0
700	725	7	0	0	0	2,375	2,400	259	154	56	0	0	0	0	0
725	750	10	0	0	0	2,400	2,425	263	158	59	0	0	0	0	0
750	775	14	0	0	0	2,425	2,450	267	161	63	0	0	0	0	0
775	800	17	0	0	0	2,450	2,475	271	165	67	0	0	0	0	0
800	825	21	0	0	0	2,475	2,500	275	169	70	0	0	0	0	0
825	850	25	0	0	0	2,500	2,525	279	173	74	0	0	0	0	0
850	875	28	0	0	0	2,525	2,550	283	177	77	0	0	0	0	0
875	900	32	0	0	0	2,550	2,575	287	181	81	0	0	0	0	0
900	925	35	0	0	0	2,575	2,600	291	185	85	0	0	0	0	0
925	950	39	0	0	0	2,600	2,625	295	189	88	0	0	0	0	0
950	975	43	0	0	0	2,625	2,650	299	193	92	0	0	0	0	0
975	1,000	46	0	0	0	2,650	2,675	303	197	96	0	0	0	0	0
1,000	1,025	50	0	0	0	2,675	2,700	307	201	100	3	0	0	0	0
1,025	1,050	53	0	0	0	2,700	2,725	311	205	103	7	0	0	0	0
1,050	1,075	57	0	0	0	2,725	2,750	315	209	107	10	0	0	0	0
1,075	1,100	61	0	0	0	2,750	2,775	320	213	111	14	0	0	0	0
1,100	1,125	64	0	0	0	2,775	2,800	324	217	114	17	0	0	0	0
1,125	1,150	68	0	0	0	2,800	2,825	328	220	118	21	0	0	0	0
1,150	1,175	71	0	0	0	2,825	2,850	332	224	122	25	0	0	0	0
1,175	1,200	75	0	0	0	2,850	2,875	336	228	126	28	0	0	0	0
1,200	1,225	79	0	0	0	2,875	2,900	340	232	129	32	0	0	0	0
1,225	1,250	82	0	0	0	2,900	2,925	344	236	133	35	0	0	0	0
1,250	1,275	86	0	0	0	2,925	2,950	349	240	137	39	0	0	0	0
1,275	1,300	90	0	0	0	2,950	2,975	353	244	140	43	0	0	0	0
1,300	1,325	93	0	0	0	2,975	3,000	358	248	144	46	0	0	0	0
1,325	1,350	97	1	0	0	3,000	3,050	365	254	150	52	0	0	0	0
1,350	1,375	101	4	0	0	3,050	3,100	374	262	157	59	0	0	0	0
1,375	1,400	105	8	0	0	3,100	3,150	383	270	165	66	0	0	0	0
1,400	1,425	108	11	0	0	3,150	3,200	392	278	173	73	0	0	0	0
1,425	1,450	112	15	0	0	3,200	3,250	401	286	180	80	0	0	0	0
1,450	1,475	116	19	0	0	3,250	3,300	410	295	188	88	0	0	0	0
1,475	1,500	119	22	0	0	3,300	3,350	419	303	196	95	0	0	0	0
1,500	1,525	123	26	0	0	3,350	3,400	428	311	204	103	6	0	0	0
1,525	1,550	127	29	0	0	3,400	3,450	437	319	212	110	13	0	0	0
1,550	1,575	131	33	0	0	3,450	3,500	446	327	220	118	20	0	0	0
1,575	1,600	134	37	0	0	3,500	3,550	455	335	228	125	28	0	0	0
1,600	1,625	138	40	0	0	3,550	3,600	464	344	236	132	35	0	0	0
1,625	1,650	142	44	0	0	3,600	3,650	473	353	243	140	42	0	0	0
1,650	1,675	145	47	0	0	3,650	3,700	482	362	251	147	49	0	0	0
1,675	1,700	149	51	0	0	3,700	3,750	491	371	259	155	56	0	0	0
1,700	1,725	153	55	0	0	3,750	3,800	500	380	268	162	64	0	0	0
1,725	1,750	157	58	0	0	3,800	3,850	509	389	276	170	71	0	0	0
1,750	1,775	160	62	0	0	3,850	3,900	518	398	284	178	78	0	0	0
1,775	1,800	164	65	0	0	3,900	3,950	527	407	292	186	85	0	0	0
1,800	1,825	168	69	0	0	3,950	4,000	536	416	300	194	93	0	0	0
1,825	1,850	172	73	0	0	4,000	4,050	545	425	308	201	100	4	0	0
1,850	1,875	176	76	0	0	4,050	4,100	554	434	316	209	108	11	0	0
1,875	1,900	180	80	0	0	4,100	4,150	563	443	324	217	115	18	0	0
1,900	1,925	184	84	0	0	4,150	4,200	572	452	332	225	122	25	0	0
1,925	1,950	188	87	0	0	4,200	4,250	581	461	341	233	130	32	0	0
1,950	1,975	192	91	0	0	4,250	4,300	590	470	350	241	137	40	0	0
1,975	2,000	196	95	0	0	4,300	4,350	599	479	359	249	145	47	0	0
2,000	2,025	199	98	2	0	4,350	4,400	608	488	368	257	152	54	0	0
2,025	2,050	203	102	5	0	4,400	4,450	617	497	377	265	160	61	0	0
2,050	2,075	207	106	9	0	4,450	4,500	626	506	386	273	167	68	0	0
2,075	2,100	211	109	13	0	4,500	4,550	635	515	395	281	175	76	0	0
2,100	2,125	215	113	16	0	4,550	4,600	644	524	404	289	183	83	0	0
2,125	2,150	219	117	20	0	4,600	4,650	653	533	413	297	191	90	0	0
2,150	2,175	223	121	23	0	4,650	4,700	662	542	422	305	199	98	1	0
2,175	2,200	227	124	27	0	4,700	4,750	671	551	431	313	207	105	8	0
2,200	2,225	231	128	31	0	4,750	4,800	680	560	440	322	215	113	16	0
2,225	2,250	235	132	34	0	4,800	4,850	689	569	449	330	222	120	23	0
2,250	2,275	239	135	38	0	4,850	4,900	698	578	458	338	230	127	30	0
2,275	2,300	243	139	41	0	4,900	4,950	707	587	467	347	238	135	37	0
2,300	2,325	247	143	45	0	4,950	5,000	716	596	476	356	246	142	44	0

“Table V—Married Persons Filing SEPARATE Returns
“MINIMUM STANDARD DEDUCTION
“Taxable Years Beginning in 1964

If adjusted gross income is—		And the number of exemptions is—				If adjusted gross income is—		And the number of exemptions is—							
At least	But less than	1	2	3	4 or more	At least	But less than	1	2	3	4	5	6	7	8 or more
		The tax is—						The tax is—							
\$0	\$800	\$0	\$0	\$0	\$0	\$2,400	\$2,425	\$270	\$148	\$34	\$0	\$0	\$0	\$0	\$0
800	825	2	0	0	0	2,425	2,450	275	152	38	0	0	0	0	0
825	850	6	0	0	0	2,450	2,475	279	156	42	0	0	0	0	0
850	875	10	0	0	0	2,475	2,500	284	160	46	0	0	0	0	0
875	900	14	0	0	0	2,500	2,525	288	165	50	0	0	0	0	0
900	925	18	0	0	0	2,525	2,550	293	169	54	0	0	0	0	0
925	950	22	0	0	0	2,550	2,575	297	173	58	0	0	0	0	0
950	975	26	0	0	0	2,575	2,600	302	178	62	0	0	0	0	0
975	1,000	30	0	0	0	2,600	2,625	306	182	66	0	0	0	0	0
1,000	1,025	34	0	0	0	2,625	2,650	311	187	70	0	0	0	0	0
1,025	1,050	38	0	0	0	2,650	2,675	315	191	74	0	0	0	0	0
1,050	1,075	42	0	0	0	2,675	2,700	320	195	78	0	0	0	0	0
1,075	1,100	46	0	0	0	2,700	2,725	324	200	82	0	0	0	0	0
1,100	1,125	50	0	0	0	2,725	2,750	329	204	86	0	0	0	0	0
1,125	1,150	54	0	0	0	2,750	2,775	333	208	90	0	0	0	0	0
1,150	1,175	58	0	0	0	2,775	2,800	338	213	94	0	0	0	0	0
1,175	1,200	62	0	0	0	2,800	2,825	343	217	99	0	0	0	0	0
1,200	1,225	66	0	0	0	2,825	2,850	348	222	103	0	0	0	0	0
1,225	1,250	70	0	0	0	2,850	2,875	353	226	107	0	0	0	0	0
1,250	1,275	74	0	0	0	2,875	2,900	358	230	111	0	0	0	0	0
1,275	1,300	78	0	0	0	2,900	2,925	363	235	115	2	0	0	0	0
1,300	1,325	82	0	0	0	2,925	2,950	368	239	119	6	0	0	0	0
1,325	1,350	86	0	0	0	2,950	2,975	373	243	123	10	0	0	0	0
1,350	1,375	90	0	0	0	2,975	3,000	378	248	127	14	0	0	0	0
1,375	1,400	94	0	0	0	3,000	3,050	385	255	134	20	0	0	0	0
1,400	1,425	99	0	0	0	3,050	3,100	395	264	142	28	0	0	0	0
1,425	1,450	103	0	0	0	3,100	3,150	405	273	150	36	0	0	0	0
1,450	1,475	107	0	0	0	3,150	3,200	415	282	158	44	0	0	0	0
1,475	1,500	111	0	0	0	3,200	3,250	425	291	167	52	0	0	0	0
1,500	1,525	115	2	0	0	3,250	3,300	435	300	176	60	0	0	0	0
1,525	1,550	119	6	0	0	3,300	3,350	445	309	184	68	0	0	0	0
1,550	1,575	123	10	0	0	3,350	3,400	455	318	193	76	0	0	0	0
1,575	1,600	127	14	0	0	3,400	3,450	465	327	202	84	0	0	0	0
1,600	1,625	132	18	0	0	3,450	3,500	475	336	211	92	0	0	0	0
1,625	1,650	136	22	0	0	3,500	3,550	485	345	219	101	4	0	0	0
1,650	1,675	140	26	0	0	3,550	3,600	495	355	228	109	12	0	0	0
1,675	1,700	144	30	0	0	3,600	3,650	505	365	237	117	20	0	0	0
1,700	1,725	148	34	0	0	3,650	3,700	515	375	246	125	28	0	0	0
1,725	1,750	152	38	0	0	3,700	3,750	525	385	255	134	36	0	0	0
1,750	1,775	156	42	0	0	3,750	3,800	535	395	264	142	44	0	0	0
1,775	1,800	160	46	0	0	3,800	3,850	545	405	273	150	52	0	0	0
1,800	1,825	165	50	0	0	3,850	3,900	555	415	282	158	60	0	0	0
1,825	1,850	169	54	0	0	3,900	3,950	565	425	291	167	68	0	0	0
1,850	1,875	173	58	0	0	3,950	4,000	575	435	300	176	76	0	0	0
1,875	1,900	178	62	0	0	4,000	4,050	585	445	309	184	84	0	0	0
1,900	1,925	182	66	0	0	4,050	4,100	595	455	318	193	92	0	0	0
1,925	1,950	187	70	0	0	4,100	4,150	605	465	327	202	101	4	0	0
1,950	1,975	191	74	0	0	4,150	4,200	615	475	336	211	109	12	0	0
1,975	2,000	195	78	0	0	4,200	4,250	625	485	345	219	117	20	0	0
2,000	2,025	200	82	0	0	4,250	4,300	635	495	355	228	125	28	0	0
2,025	2,050	204	86	0	0	4,300	4,350	645	505	365	237	134	36	0	0
2,050	2,075	208	90	0	0	4,350	4,400	655	515	375	246	142	44	0	0
2,075	2,100	213	94	0	0	4,400	4,450	665	525	385	255	150	52	0	0
2,100	2,125	217	99	0	0	4,450	4,500	675	535	395	264	158	60	0	0
2,125	2,150	222	103	0	0	4,500	4,550	685	545	405	273	167	68	0	0
2,150	2,175	226	107	0	0	4,550	4,600	695	555	415	282	176	76	0	0
2,175	2,200	230	111	0	0	4,600	4,650	705	565	425	291	184	84	0	0
2,200	2,225	235	115	2	0	4,650	4,700	715	575	435	300	193	92	0	0
2,225	2,250	239	119	6	0	4,700	4,750	725	585	445	309	202	101	4	0
2,250	2,275	243	123	10	0	4,750	4,800	735	595	455	318	211	109	12	0
2,275	2,300	248	127	14	0	4,800	4,850	746	605	465	327	219	117	20	0
2,300	2,325	252	132	18	0	4,850	4,900	758	615	475	336	228	125	28	0
2,325	2,350	257	136	22	0	4,900	4,950	769	625	485	345	237	134	36	0
2,350	2,375	261	140	26	0	4,950	5,000	781	635	495	355	246	142	44	0
2,375	2,400	266	144	30	0										

1 “(b) TAXABLE YEARS BEGINNING AFTER DECEM-
2 BER 31, 1964.—In lieu of the tax imposed by section 1,
3 there is hereby imposed for each taxable year beginning

- 1 after December 31, 1964, on the taxable income of every
 2 individual whose adjusted gross income for such year is
 3 less than \$5,000 and who has elected for such year to pay
 4 the tax imposed by this section a tax as follows:

“Table I—Single Person—NOT Head of Household

“Taxable Years Beginning After December 31, 1964

If adjusted gross income is—		And the number of exemptions is—				If adjusted gross income is—		And the number of exemptions is—						
At least	But less than	1	2	3	4 or more	At least	But less than	1	2	3	4	5	6	7 or more
		The tax is—						The tax is—						
\$0	\$900	\$0	\$0	\$0	\$0	\$2, 450	\$2, 475	\$236	\$124	\$23	\$0	\$0	\$0	\$0
900	925	2	0	0	0	2, 475	2, 500	240	128	26	0	0	0	0
925	950	5	0	0	0	2, 500	2, 525	244	132	30	0	0	0	0
950	975	9	0	0	0	2, 525	2, 550	248	136	33	0	0	0	0
975	1, 000	12	0	0	0	2, 550	2, 575	253	139	37	0	0	0	0
1, 000	1, 025	16	0	0	0	2, 575	2, 600	257	143	40	0	0	0	0
1, 025	1, 050	19	0	0	0	2, 600	2, 625	261	147	44	0	0	0	0
1, 050	1, 075	23	0	0	0	2, 625	2, 650	265	151	47	0	0	0	0
1, 075	1, 100	26	0	0	0	2, 650	2, 675	270	155	51	0	0	0	0
1, 100	1, 125	30	0	0	0	2, 675	2, 700	274	159	54	0	0	0	0
1, 125	1, 150	33	0	0	0	2, 700	2, 725	278	163	58	0	0	0	0
1, 150	1, 175	37	0	0	0	2, 725	2, 750	282	167	61	0	0	0	0
1, 175	1, 200	40	0	0	0	2, 750	2, 775	287	171	65	0	0	0	0
1, 200	1, 225	44	0	0	0	2, 775	2, 800	291	175	68	0	0	0	0
1, 225	1, 250	47	0	0	0	2, 800	2, 825	295	179	72	0	0	0	0
1, 250	1, 275	51	0	0	0	2, 825	2, 850	299	183	76	0	0	0	0
1, 275	1, 300	54	0	0	0	2, 850	2, 875	304	187	79	0	0	0	0
1, 300	1, 325	58	0	0	0	2, 875	2, 900	308	191	83	0	0	0	0
1, 325	1, 350	61	0	0	0	2, 900	2, 925	312	195	87	0	0	0	0
1, 350	1, 375	65	0	0	0	2, 925	2, 950	317	199	91	0	0	0	0
1, 375	1, 400	68	0	0	0	2, 950	2, 975	322	203	94	0	0	0	0
1, 400	1, 425	72	0	0	0	2, 975	3, 000	327	207	98	0	0	0	0
1, 425	1, 450	76	0	0	0	3, 000	3, 050	333	213	104	4	0	0	0
1, 450	1, 475	79	0	0	0	3, 050	3, 100	342	221	111	11	0	0	0
1, 475	1, 500	83	0	0	0	3, 100	3, 150	350	229	119	18	0	0	0
1, 500	1, 525	87	0	0	0	3, 150	3, 200	359	238	126	25	0	0	0
1, 525	1, 550	91	0	0	0	3, 200	3, 250	367	246	134	32	0	0	0
1, 550	1, 575	94	0	0	0	3, 250	3, 300	376	255	141	39	0	0	0
1, 575	1, 600	98	0	0	0	3, 300	3, 350	385	263	149	46	0	0	0
1, 600	1, 625	102	2	0	0	3, 350	3, 400	393	272	157	53	0	0	0
1, 625	1, 650	106	5	0	0	3, 400	3, 450	402	280	165	60	0	0	0
1, 650	1, 675	109	9	0	0	3, 450	3, 500	410	289	173	67	0	0	0
1, 675	1, 700	113	12	0	0	3, 500	3, 550	419	297	181	74	0	0	0
1, 700	1, 725	117	16	0	0	3, 550	3, 600	427	306	189	81	0	0	0
1, 725	1, 750	121	19	0	0	3, 600	3, 650	436	315	197	89	0	0	0
1, 750	1, 775	124	23	0	0	3, 650	3, 700	444	324	205	96	0	0	0
1, 775	1, 800	128	26	0	0	3, 700	3, 750	453	334	213	104	4	0	0
1, 800	1, 825	132	30	0	0	3, 750	3, 800	462	343	221	111	11	0	0
1, 825	1, 850	136	33	0	0	3, 800	3, 850	470	353	229	119	18	0	0
1, 850	1, 875	139	37	0	0	3, 850	3, 900	479	362	238	126	25	0	0
1, 875	1, 900	143	40	0	0	3, 900	3, 950	487	372	246	134	32	0	0
1, 900	1, 925	147	44	0	0	3, 950	4, 000	496	381	255	141	39	0	0
1, 925	1, 950	151	47	0	0	4, 000	4, 050	504	390	263	149	46	0	0
1, 950	1, 975	155	51	0	0	4, 050	4, 100	513	399	272	157	53	0	0
1, 975	2, 000	159	54	0	0	4, 100	4, 150	521	407	280	165	60	0	0
2, 000	2, 025	163	58	0	0	4, 150	4, 200	530	416	289	173	67	0	0
2, 025	2, 050	167	61	0	0	4, 200	4, 250	538	424	297	181	74	0	0
2, 050	2, 075	171	65	0	0	4, 250	4, 300	547	433	306	189	81	0	0
2, 075	2, 100	175	68	0	0	4, 300	4, 350	556	442	315	197	89	0	0
2, 100	2, 125	179	72	0	0	4, 350	4, 400	564	450	324	205	96	0	0
2, 125	2, 150	183	76	0	0	4, 400	4, 450	573	459	334	213	104	4	0
2, 150	2, 175	187	79	0	0	4, 450	4, 500	581	467	343	221	111	11	0
2, 175	2, 200	191	83	0	0	4, 500	4, 550	590	476	353	229	119	18	0
2, 200	2, 225	195	87	0	0	4, 550	4, 600	598	484	362	238	126	25	0
2, 225	2, 250	199	91	0	0	4, 600	4, 650	607	493	372	246	134	32	0
2, 250	2, 275	203	94	0	0	4, 650	4, 700	615	501	381	255	141	39	0
2, 275	2, 300	207	98	0	0	4, 700	4, 750	624	510	391	263	149	46	0
2, 300	2, 325	211	102	2	0	4, 750	4, 800	633	519	400	272	157	53	0
2, 325	2, 350	215	106	5	0	4, 800	4, 850	641	527	410	280	165	60	0
2, 350	2, 375	219	109	9	0	4, 850	4, 900	650	536	419	289	173	67	0
2, 375	2, 400	223	113	12	0	4, 900	4, 950	658	544	429	297	181	74	0
2, 400	2, 425	227	117	16	0	4, 950	5, 000	667	553	438	306	189	81	0
2, 425	2, 450	231	121	19	0									

“Table II—Head of Household
“Taxable Years Beginning After December 31, 1964

If adjusted gross income is—		And the number of exemptions is—				If adjusted gross income is—		And the number of exemptions is—						
At least	But less than	1	2	3	4 or more	At least	But less than	1	2	3	4	5	6	7 or more
		The tax is—						The tax is—						
\$0	\$900	\$0	\$0	\$0	\$0	\$2,450	\$2,475	\$230	\$121	\$23	\$0	\$0	\$0	\$0
900	925	2	0	0	0	2,475	2,500	234	124	26	0	0	0	0
925	950	5	0	0	0	2,500	2,525	238	128	30	0	0	0	0
950	975	9	0	0	0	2,525	2,550	242	131	33	0	0	0	0
975	1,000	12	0	0	0	2,550	2,575	246	135	37	0	0	0	0
1,000	1,025	16	0	0	0	2,575	2,600	250	138	40	0	0	0	0
1,025	1,050	19	0	0	0	2,600	2,625	254	142	44	0	0	0	0
1,050	1,075	23	0	0	0	2,625	2,650	258	146	47	0	0	0	0
1,075	1,100	26	0	0	0	2,650	2,675	262	150	51	0	0	0	0
1,100	1,125	30	0	0	0	2,675	2,700	266	154	54	0	0	0	0
1,125	1,150	33	0	0	0	2,700	2,725	270	158	58	0	0	0	0
1,150	1,175	37	0	0	0	2,725	2,750	274	162	61	0	0	0	0
1,175	1,200	40	0	0	0	2,750	2,775	278	166	65	0	0	0	0
1,200	1,225	44	0	0	0	2,775	2,800	282	170	68	0	0	0	0
1,225	1,250	47	0	0	0	2,800	2,825	286	174	72	0	0	0	0
1,250	1,275	51	0	0	0	2,825	2,850	290	178	75	0	0	0	0
1,275	1,300	54	0	0	0	2,850	2,875	294	182	79	0	0	0	0
1,300	1,325	58	0	0	0	2,875	2,900	298	186	82	0	0	0	0
1,325	1,350	61	0	0	0	2,900	2,925	302	190	86	0	0	0	0
1,350	1,375	65	0	0	0	2,925	2,950	307	194	89	0	0	0	0
1,375	1,400	68	0	0	0	2,950	2,975	311	198	93	0	0	0	0
1,400	1,425	72	0	0	0	2,975	3,000	316	202	96	0	0	0	0
1,425	1,450	75	0	0	0	3,000	3,050	322	208	102	4	0	0	0
1,450	1,475	79	0	0	0	3,050	3,100	330	216	109	11	0	0	0
1,475	1,500	82	0	0	0	3,100	3,150	338	224	116	18	0	0	0
1,500	1,525	86	0	0	0	3,150	3,200	346	232	123	25	0	0	0
1,525	1,550	89	0	0	0	3,200	3,250	354	240	130	32	0	0	0
1,550	1,575	93	0	0	0	3,250	3,300	363	248	137	39	0	0	0
1,575	1,600	96	0	0	0	3,300	3,350	371	256	144	46	0	0	0
1,600	1,625	100	2	0	0	3,350	3,400	379	264	152	53	0	0	0
1,625	1,650	103	5	0	0	3,400	3,450	387	272	160	60	0	0	0
1,650	1,675	107	9	0	0	3,450	3,500	395	280	168	67	0	0	0
1,675	1,700	110	12	0	0	3,500	3,550	403	288	176	74	0	0	0
1,700	1,725	114	16	0	0	3,550	3,600	411	296	184	81	0	0	0
1,725	1,750	117	19	0	0	3,600	3,650	419	305	192	88	0	0	0
1,750	1,775	121	23	0	0	3,650	3,700	427	314	200	95	0	0	0
1,775	1,800	124	26	0	0	3,700	3,750	435	323	208	102	4	0	0
1,800	1,825	128	30	0	0	3,750	3,800	444	332	216	109	11	0	0
1,825	1,850	131	33	0	0	3,800	3,850	452	341	224	116	18	0	0
1,850	1,875	135	37	0	0	3,850	3,900	460	350	232	123	25	0	0
1,875	1,900	138	40	0	0	3,900	3,950	468	359	240	130	32	0	0
1,900	1,925	142	44	0	0	3,950	4,000	476	368	248	137	39	0	0
1,925	1,950	146	47	0	0	4,000	4,050	484	376	256	144	46	0	0
1,950	1,975	150	51	0	0	4,050	4,100	492	384	264	152	53	0	0
1,975	2,000	154	54	0	0	4,100	4,150	500	392	272	160	60	0	0
2,000	2,025	158	58	0	0	4,150	4,200	508	400	280	168	67	0	0
2,025	2,050	162	61	0	0	4,200	4,250	516	403	288	176	74	0	0
2,050	2,075	166	65	0	0	4,250	4,300	525	417	296	184	81	0	0
2,075	2,100	170	68	0	0	4,300	4,350	533	425	305	192	88	0	0
2,100	2,125	174	72	0	0	4,350	4,400	541	433	314	200	95	0	0
2,125	2,150	178	75	0	0	4,400	4,450	549	441	323	208	102	4	0
2,150	2,175	182	79	0	0	4,450	4,500	557	449	332	216	109	11	0
2,175	2,200	186	82	0	0	4,500	4,550	565	457	341	224	116	18	0
2,200	2,225	190	86	0	0	4,550	4,600	573	465	350	232	123	25	0
2,225	2,250	194	89	0	0	4,600	4,650	581	473	359	240	130	32	0
2,250	2,275	198	93	0	0	4,650	4,700	589	481	368	248	137	39	0
2,275	2,300	202	96	0	0	4,700	4,750	597	489	377	256	144	46	0
2,300	2,325	206	100	2	0	4,750	4,800	605	498	386	264	152	53	0
2,325	2,350	210	103	5	0	4,800	4,850	614	506	395	272	160	60	0
2,350	2,375	214	107	9	0	4,850	4,900	622	514	404	280	168	67	0
2,375	2,400	218	110	12	0	4,900	4,950	630	522	413	288	176	74	0
2,400	2,425	222	114	16	0	4,950	5,000	638	530	422	296	184	81	0
2,425	2,450	226	117	19	0									

“Table III—Married Persons Filing JOINT Returns

“Taxable Years Beginning After December 31, 1964

If adjusted gross income is—		And the number of exemptions is—			If adjusted gross income is—		And the number of exemptions is—					
At least	But less than	2	3	4 or more	At least	But less than	2	3	4	5	6	7 or more
		The tax is—					The tax is—					
\$0	\$1,600	\$0	\$0	\$0	\$2,800	\$2,825	\$172	\$72	\$0	\$0	\$0	\$0
1,600	1,625	2	0	0	2,825	2,850	176	75	0	0	0	0
1,625	1,650	5	0	0	2,850	2,875	179	79	0	0	0	0
1,650	1,675	9	0	0	2,875	2,900	183	82	0	0	0	0
1,675	1,700	12	0	0	2,900	2,925	187	86	0	0	0	0
1,700	1,725	16	0	0	2,925	2,950	191	89	0	0	0	0
1,725	1,750	19	0	0	2,950	2,975	194	93	0	0	0	0
1,750	1,775	23	0	0	2,975	3,000	198	96	0	0	0	0
1,775	1,800	26	0	0	3,000	3,050	204	102	4	0	0	0
1,800	1,825	30	0	0	3,050	3,100	211	109	11	0	0	0
1,825	1,850	33	0	0	3,100	3,150	219	116	18	0	0	0
1,850	1,875	37	0	0	3,150	3,200	226	123	25	0	0	0
1,875	1,900	40	0	0	3,200	3,250	234	130	32	0	0	0
1,900	1,925	44	0	0	3,250	3,300	241	137	39	0	0	0
1,925	1,950	47	0	0	3,300	3,350	249	144	46	0	0	0
1,950	1,975	51	0	0	3,350	3,400	256	151	53	0	0	0
1,975	2,000	54	0	0	3,400	3,450	264	159	60	0	0	0
2,000	2,025	58	0	0	3,450	3,500	271	166	67	0	0	0
2,025	2,050	61	0	0	3,500	3,550	279	174	74	0	0	0
2,050	2,075	65	0	0	3,550	3,600	286	181	81	0	0	0
2,075	2,100	68	0	0	3,600	3,650	294	189	88	0	0	0
2,100	2,125	72	0	0	3,650	3,700	302	196	95	0	0	0
2,125	2,150	75	0	0	3,700	3,750	310	204	102	4	0	0
2,150	2,175	79	0	0	3,750	3,800	318	211	109	11	0	0
2,175	2,200	82	0	0	3,800	3,850	326	219	116	18	0	0
2,200	2,225	86	0	0	3,850	3,900	334	226	123	25	0	0
2,225	2,250	89	0	0	3,900	3,950	342	234	130	32	0	0
2,250	2,275	93	0	0	3,950	4,000	350	241	137	39	0	0
2,275	2,300	96	0	0	4,000	4,050	358	249	144	46	0	0
2,300	2,325	100	2	0	4,050	4,100	365	256	151	53	0	0
2,325	2,350	103	5	0	4,100	4,150	372	264	159	60	0	0
2,350	2,375	107	9	0	4,150	4,200	379	271	166	67	0	0
2,375	2,400	110	12	0	4,200	4,250	386	279	174	74	0	0
2,400	2,425	114	16	0	4,250	4,300	394	286	181	81	0	0
2,425	2,450	117	19	0	4,300	4,350	401	294	189	88	0	0
2,450	2,475	121	23	0	4,350	4,400	408	302	196	95	0	0
2,475	2,500	124	26	0	4,400	4,450	415	310	204	102	4	0
2,500	2,525	128	30	0	4,450	4,500	422	318	211	109	11	0
2,525	2,550	131	33	0	4,500	4,550	430	326	219	116	18	0
2,550	2,575	135	37	0	4,550	4,600	437	334	226	123	25	0
2,575	2,600	138	40	0	4,600	4,650	444	342	234	130	32	0
2,600	2,625	142	44	0	4,650	4,700	451	350	241	137	39	0
2,625	2,650	146	47	0	4,700	4,750	459	358	249	144	46	0
2,650	2,675	149	51	0	4,750	4,800	467	366	256	151	53	0
2,675	2,700	153	54	0	4,800	4,850	474	374	264	159	60	0
2,700	2,725	157	58	0	4,850	4,900	482	382	271	166	67	0
2,725	2,750	161	61	0	4,900	4,950	490	390	279	174	74	0
2,750	2,775	164	65	0	4,950	5,000	497	398	286	181	81	0
2,775	2,800	168	68	0								

"Table IV—Married Persons Filing SEPARATE Returns

"10 PERCENT STANDARD DEDUCTION

"Taxable Years Beginning After December 31, 1964

If adjusted gross income is—		And the number of exemptions is—				If adjusted gross income is—		And the number of exemptions is—							
At least	But less than	1	2	3	4 or more	At least	But less than	1	2	3	4	5	6	7	8 or more
		The tax is—						The tax is—							
\$0	\$675	\$0	\$0	\$0	\$0	\$2,325	\$2,350	\$226	\$131	\$43	\$0	\$0	\$0	\$0	\$0
675	700	3	0	0	0	2,350	2,375	229	134	46	0	0	0	0	0
700	725	6	0	0	0	2,375	2,400	233	137	49	0	0	0	0	0
725	750	9	0	0	0	2,400	2,425	237	141	52	0	0	0	0	0
750	775	12	0	0	0	2,425	2,450	241	144	55	0	0	0	0	0
775	800	15	0	0	0	2,450	2,475	245	148	58	0	0	0	0	0
800	825	18	0	0	0	2,475	2,500	249	151	61	0	0	0	0	0
825	850	22	0	0	0	2,500	2,525	252	155	65	0	0	0	0	0
850	875	25	0	0	0	2,525	2,550	256	158	68	0	0	0	0	0
875	900	28	0	0	0	2,550	2,575	260	162	71	0	0	0	0	0
900	925	31	0	0	0	2,575	2,600	264	166	74	0	0	0	0	0
925	950	34	0	0	0	2,600	2,625	268	169	78	0	0	0	0	0
950	975	37	0	0	0	2,625	2,650	272	173	81	0	0	0	0	0
975	1,000	40	0	0	0	2,650	2,675	275	176	84	0	0	0	0	0
1,000	1,025	44	0	0	0	2,675	2,700	279	180	88	3	0	0	0	0
1,025	1,050	47	0	0	0	2,700	2,725	283	184	91	6	0	0	0	0
1,050	1,075	50	0	0	0	2,725	2,750	287	187	95	9	0	0	0	0
1,075	1,100	53	0	0	0	2,750	2,775	291	191	98	12	0	0	0	0
1,100	1,125	56	0	0	0	2,775	2,800	294	194	101	15	0	0	0	0
1,125	1,150	59	0	0	0	2,800	2,825	298	198	105	18	0	0	0	0
1,150	1,175	62	0	0	0	2,825	2,850	302	202	108	22	0	0	0	0
1,175	1,200	66	0	0	0	2,850	2,875	306	205	111	25	0	0	0	0
1,200	1,225	69	0	0	0	2,875	2,900	310	209	115	28	0	0	0	0
1,225	1,250	72	0	0	0	2,900	2,925	314	212	118	31	0	0	0	0
1,250	1,275	75	0	0	0	2,925	2,950	318	216	122	34	0	0	0	0
1,275	1,300	79	0	0	0	2,950	2,975	323	220	125	37	0	0	0	0
1,300	1,325	82	0	0	0	2,975	3,000	327	223	128	40	0	0	0	0
1,325	1,350	86	1	0	0	3,000	3,050	333	229	133	45	0	0	0	0
1,350	1,375	89	4	0	0	3,050	3,100	342	236	140	51	0	0	0	0
1,375	1,400	92	7	0	0	3,100	3,150	350	244	147	58	0	0	0	0
1,400	1,425	96	10	0	0	3,150	3,200	359	252	154	64	0	0	0	0
1,425	1,450	99	13	0	0	3,200	3,250	367	259	161	70	0	0	0	0
1,450	1,475	102	16	0	0	3,250	3,300	376	267	169	77	0	0	0	0
1,475	1,500	106	19	0	0	3,300	3,350	385	275	176	84	0	0	0	0
1,500	1,525	109	23	0	0	3,350	3,400	393	282	183	91	5	0	0	0
1,525	1,550	113	26	0	0	3,400	3,450	402	290	190	97	12	0	0	0
1,550	1,575	116	29	0	0	3,450	3,500	410	298	197	104	18	0	0	0
1,575	1,600	119	32	0	0	3,500	3,550	419	305	205	111	24	0	0	0
1,600	1,625	123	35	0	0	3,550	3,600	427	313	212	118	30	0	0	0
1,625	1,650	126	38	0	0	3,600	3,650	436	322	219	124	37	0	0	0
1,650	1,675	129	41	0	0	3,650	3,700	444	330	226	131	43	0	0	0
1,675	1,700	133	45	0	0	3,700	3,750	453	339	234	138	49	0	0	0
1,700	1,725	136	48	0	0	3,750	3,800	462	348	242	145	56	0	0	0
1,725	1,750	140	51	0	0	3,800	3,850	470	356	249	152	62	0	0	0
1,750	1,775	143	54	0	0	3,850	3,900	479	365	257	159	68	0	0	0
1,775	1,800	146	57	0	0	3,900	3,950	487	373	265	166	75	0	0	0
1,800	1,825	150	60	0	0	3,950	4,000	496	382	272	173	82	0	0	0
1,825	1,850	154	64	0	0	4,000	4,050	504	390	280	181	88	3	0	0
1,850	1,875	157	67	0	0	4,050	4,100	513	399	287	188	95	9	0	0
1,875	1,900	161	70	0	0	4,100	4,150	521	407	295	195	102	16	0	0
1,900	1,925	164	73	0	0	4,150	4,200	530	416	303	202	109	22	0	0
1,925	1,950	168	77	0	0	4,200	4,250	538	424	310	209	115	28	0	0
1,950	1,975	172	80	0	0	4,250	4,300	547	433	319	217	122	35	0	0
1,975	2,000	175	83	0	0	4,300	4,350	556	442	328	224	129	41	0	0
2,000	2,025	179	87	2	0	4,350	4,400	564	450	336	231	136	47	0	0
2,025	2,050	182	90	5	0	4,400	4,450	573	459	345	239	142	54	0	0
2,050	2,075	186	93	8	0	4,450	4,500	581	467	353	247	149	60	0	0
2,075	2,100	190	97	11	0	4,500	4,550	590	476	362	254	157	66	0	0
2,100	2,125	193	100	14	0	4,550	4,600	598	484	370	262	164	73	0	0
2,125	2,150	197	104	17	0	4,600	4,650	607	493	379	270	171	79	0	0
2,150	2,175	200	107	20	0	4,650	4,700	615	501	387	277	178	86	1	0
2,175	2,200	204	110	24	0	4,700	4,750	624	510	396	285	185	93	7	0
2,200	2,225	208	114	27	0	4,750	4,800	633	519	405	293	193	100	14	0
2,225	2,250	211	117	30	0	4,800	4,850	641	527	413	300	200	106	20	0
2,250	2,275	215	120	33	0	4,850	4,900	650	536	422	308	207	113	26	0
2,275	2,300	218	124	36	0	4,900	4,950	658	544	430	316	214	120	33	0
2,300	2,325	222	127	39	0	4,950	5,000	667	553	439	325	221	127	39	0

“Table V—Married Persons Filing SEPARATE Returns
“MINIMUM STANDARD DEDUCTION

“Taxable Years Beginning After December 31, 1964

If adjusted gross income is—		And the number of exemptions is—				If adjusted gross income is—		And the number of exemptions is—							
At least	But less than	1	2	3	4 or more	At least	But less than	1	2	3	4	5	6	7	8 or more
		The tax is—						The tax is—							
\$0	\$800	\$0	\$0	\$0	\$0	\$2,400	\$2,425	\$244	\$132	\$30	\$0	\$0	\$0	\$0	\$0
800	825	2	0	0	0	2,425	2,450	248	133	33	0	0	0	0	0
825	850	5	0	0	0	2,450	2,475	253	139	37	0	0	0	0	0
850	875	9	0	0	0	2,475	2,500	257	143	40	0	0	0	0	0
875	900	12	0	0	0	2,500	2,525	261	147	44	0	0	0	0	0
900	925	16	0	0	0	2,525	2,550	265	151	47	0	0	0	0	0
925	950	19	0	0	0	2,550	2,575	270	155	51	0	0	0	0	0
950	975	23	0	0	0	2,575	2,600	274	159	54	0	0	0	0	0
975	1,000	26	0	0	0	2,600	2,625	278	163	58	0	0	0	0	0
1,000	1,025	30	0	0	0	2,625	2,650	282	167	61	0	0	0	0	0
1,025	1,050	33	0	0	0	2,650	2,675	287	171	65	0	0	0	0	0
1,050	1,075	37	0	0	0	2,675	2,700	291	175	68	0	0	0	0	0
1,075	1,100	40	0	0	0	2,700	2,725	295	179	72	0	0	0	0	0
1,100	1,125	44	0	0	0	2,725	2,750	299	183	76	0	0	0	0	0
1,125	1,150	47	0	0	0	2,750	2,775	304	187	79	0	0	0	0	0
1,150	1,175	51	0	0	0	2,775	2,800	308	191	83	0	0	0	0	0
1,175	1,200	54	0	0	0	2,800	2,825	312	195	87	0	0	0	0	0
1,200	1,225	58	0	0	0	2,825	2,850	317	199	91	0	0	0	0	0
1,225	1,250	61	0	0	0	2,850	2,875	322	203	94	0	0	0	0	0
1,250	1,275	65	0	0	0	2,875	2,900	327	207	98	0	0	0	0	0
1,275	1,300	68	0	0	0	2,900	2,925	331	211	102	2	0	0	0	0
1,300	1,325	72	0	0	0	2,925	2,950	336	215	106	5	0	0	0	0
1,325	1,350	76	0	0	0	2,950	2,975	341	219	109	9	0	0	0	0
1,350	1,375	79	0	0	0	2,975	3,000	346	223	113	12	0	0	0	0
1,375	1,400	83	0	0	0	3,000	3,050	353	229	119	18	0	0	0	0
1,400	1,425	87	0	0	0	3,050	3,100	362	238	126	25	0	0	0	0
1,425	1,450	91	0	0	0	3,100	3,150	372	246	134	32	0	0	0	0
1,450	1,475	94	0	0	0	3,150	3,200	381	255	141	39	0	0	0	0
1,475	1,500	98	0	0	0	3,200	3,250	391	263	149	46	0	0	0	0
1,500	1,525	102	2	0	0	3,250	3,300	400	272	157	53	0	0	0	0
1,525	1,550	106	5	0	0	3,300	3,350	410	280	165	60	0	0	0	0
1,550	1,575	109	9	0	0	3,350	3,400	419	289	173	67	0	0	0	0
1,575	1,600	113	12	0	0	3,400	3,450	429	297	181	74	0	0	0	0
1,600	1,625	117	16	0	0	3,450	3,500	438	306	189	81	0	0	0	0
1,625	1,650	121	19	0	0	3,500	3,550	448	315	197	89	4	0	0	0
1,650	1,675	124	23	0	0	3,550	3,600	457	324	205	96	11	0	0	0
1,675	1,700	128	26	0	0	3,600	3,650	467	334	213	104	18	0	0	0
1,700	1,725	132	30	0	0	3,650	3,700	476	343	221	111	25	0	0	0
1,725	1,750	136	33	0	0	3,700	3,750	486	353	229	119	32	0	0	0
1,750	1,775	139	37	0	0	3,750	3,800	495	362	238	126	39	0	0	0
1,775	1,800	143	40	0	0	3,800	3,850	505	372	246	134	46	0	0	0
1,800	1,825	147	44	0	0	3,850	3,900	514	381	255	141	53	0	0	0
1,825	1,850	151	47	0	0	3,900	3,950	524	391	263	149	60	0	0	0
1,850	1,875	155	51	0	0	3,950	4,000	533	400	272	157	67	0	0	0
1,875	1,900	159	54	0	0	4,000	4,050	543	410	280	165	74	0	0	0
1,900	1,925	163	58	0	0	4,050	4,100	552	419	289	173	81	0	0	0
1,925	1,950	167	61	0	0	4,100	4,150	562	429	297	181	89	4	0	0
1,950	1,975	171	65	0	0	4,150	4,200	571	438	306	189	96	11	0	0
1,975	2,000	175	68	0	0	4,200	4,250	581	448	315	197	104	18	0	0
2,000	2,025	179	72	0	0	4,250	4,300	590	457	324	205	111	25	0	0
2,025	2,050	183	76	0	0	4,300	4,350	600	467	334	213	119	32	0	0
2,050	2,075	187	79	0	0	4,350	4,400	609	476	343	221	126	39	0	0
2,075	2,100	191	83	0	0	4,400	4,450	619	486	353	229	134	46	0	0
2,100	2,125	195	87	0	0	4,450	4,500	628	495	362	238	141	53	0	0
2,125	2,150	199	91	0	0	4,500	4,550	638	505	372	246	149	60	0	0
2,150	2,175	203	94	0	0	4,550	4,600	647	514	381	255	157	67	0	0
2,175	2,200	207	98	0	0	4,600	4,650	657	524	391	263	165	74	0	0
2,200	2,225	211	102	2	0	4,650	4,700	666	533	400	272	173	81	0	0
2,225	2,250	215	106	5	0	4,700	4,750	676	543	410	280	181	89	4	0
2,250	2,275	219	109	9	0	4,750	4,800	685	552	419	289	189	96	11	0
2,275	2,300	223	113	12	0	4,800	4,850	696	562	429	297	197	104	18	0
2,300	2,325	227	117	16	0	4,850	4,900	707	571	438	306	205	111	25	0
2,325	2,350	231	121	19	0	4,900	4,950	718	581	448	315	213	119	32	0
2,350	2,375	236	124	23	0	4,950	5,000	729	590	457	324	221	126	39	0
2,375	2,400	240	128	26	0										0

1 (b) RULES FOR OPTIONAL TAX.—

2 (1) HUSBAND OR WIFE FILING SEPARATE RE-
3 TURNS.—Subsection (c) of section 4 (relating to rules
4 for optional tax) is amended to read as follows:

5 “(c) HUSBAND OR WIFE FILING SEPARATE RE-
6 TURN.—

7 “(1) A husband or wife may not elect to pay the
8 optional tax imposed by section 3 if the tax of the other
9 spouse is determined under section 1 on the basis of tax-
10 able income computed without regard to the standard
11 deduction.

12 “(2) Except as otherwise provided in this subsec-
13 tion, in the case of a husband or wife filing a separate
14 return the tax imposed by section 3 shall be—

15 “(A) for taxable years beginning in 1964, the
16 lesser of the tax shown in Table IV or Table V of
17 section 3 (a), and

18 “(B) for taxable years beginning after Decem-
19 ber 31, 1964, the lesser of the tax shown in Table
20 IV or Table V of section 3 (b).

21 “(3) Neither Table V of section 3 (a) nor Table V
22 of section 3 (b) shall apply in the case of a husband
23 or wife filing a separate return if the tax or the other
24 spouse is determined with regard to the 10-percent
25 standard deduction; except that an individual described

1 in section 141 (d) (2) may elect (under regulations
2 prescribed by the Secretary or his delegate) —

3 “(A) to pay the tax shown in Table V of
4 section 3 (a) in lieu of the tax shown in Table IV
5 of section 3 (a), and

6 “(B) to pay the tax shown in Table V of
7 section 3 (b) in lieu of the tax shown in Table IV
8 of section 3 (b).

9 For purposes of this title, an election under the pre-
10 ceding sentence shall be treated as an election made
11 under section 141 (d) (2).

12 “(4) For purposes of this subsection, determination
13 of marital status shall be made under section 143.”

14 (2) AMENDMENT OF SECTION 6014.—Section
15 6014 (a) (relating to income tax return—tax not com-
16 puted by taxpayer) is amended by adding at the end
17 thereof the following new sentence: “In the case of a
18 married individual filing a separate return and electing
19 the benefits of this subsection, neither Table V in section
20 3 (a) nor Table V in section 3 (b) shall apply.”

21 (3) TECHNICAL AMENDMENTS.—

22 (A) Subsection (a) of section 4 (relating to
23 rules for optional tax) is amended by striking out
24 “table” and inserting in lieu thereof “tables”.

25 (B) Section 4 (f) (relating to cross references)

1 is amended by adding at the end thereof the follow-
 2 ing new paragraph:

“(4) For nonapplicability of Table V in section 3(a) and Table V in section 3(b) in case where tax is not computed by taxpayer, see section 6014(a).”

3 (c) EFFECTIVE DATE.—Except for purposes of section
 4 21 of the Internal Revenue Code of 1954 (relating to effect
 5 of changes in rates during a taxable year), the amendments
 6 made by this section shall apply to taxable years beginning
 7 after December 31, 1963.

8 SEC. 302. INCOME TAX COLLECTED AT SOURCE.

9 ~~(204)(a) PERCENTAGE METHOD OF WITHHOLDING.~~ Sub-
 10 section ~~(a)~~ of section ~~3402~~ (relating to requirement of with-
 11 holding) is amended to read as follows:

12 ~~“(a) REQUIREMENT OF WITHHOLDING.~~ Every em-
 13 ployer making payment of wages shall deduct and withhold
 14 upon such wages (except as provided in subsection ~~(j)~~) a
 15 tax equal to the following percentage of the amount by
 16 which the wages exceed the number of withholding exemp-
 17 tions claimed, multiplied by the amount of one such exemp-
 18 tion as shown in subsection ~~(b)(1)~~:

1 ~~“(1) 15 percent in the case of wages paid during~~
 2 the calendar year 1964, and .

3 ~~“(2) 14 percent in the case of wages paid after~~
 4 December 31, 1964.”

5 (a) *PERCENTAGE METHOD OF WITHHOLDING.*—Sub-
 6 section (a) of section 3402 (relating to requirement of with-
 7 holding) is amended by striking out “18 percent” and insert-
 8 ing in lieu thereof “14 percent”.

9 (205)(b) *WAGE BRACKET WITHHOLDING.*—Paragraph
 10 ~~(1) of section 3402(c) (relating to wage bracket withhold-~~
 11 ~~ing)~~ is amended to read as follows:

12 ~~“(1)(A) WAGES PAID DURING CALENDAR YEAR~~
 13 ~~1964.~~—At the election of the employer with respect to
 14 any employee, the employer shall deduct and withhold
 15 upon the wages paid to such employee during the cal-
 16 endar year 1964 a tax determined in accordance with
 17 the following tables, which shall be in lieu of the tax
 18 required to be deducted and withheld under subsection
 19 ~~(a):~~

“If the payroll period with respect to an employee is weekly

And the wages are—		And the number of withholding exemptions claimed is—										
At least—	But less than—	0	1	2	3	4	5	6	7	8	9	10 or more
The amount of income tax to be withheld shall be—												
\$0.....	\$13.....	15% of wages	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
\$13.....	\$14.....	\$2.00	.10	0	0	0	0	0	0	0	0	0
\$14.....	\$15.....	2.20	.30	0	0	0	0	0	0	0	0	0
\$15.....	\$16.....	2.30	.40	0	0	0	0	0	0	0	0	0
\$16.....	\$17.....	2.50	.60	0	0	0	0	0	0	0	0	0
\$17.....	\$18.....	2.60	.70	0	0	0	0	0	0	0	0	0
\$18.....	\$19.....	2.80	.90	0	0	0	0	0	0	0	0	0
\$19.....	\$20.....	2.90	1.00	0	0	0	0	0	0	0	0	0
\$20.....	\$21.....	3.10	1.20	0	0	0	0	0	0	0	0	0
\$21.....	\$22.....	3.20	1.30	0	0	0	0	0	0	0	0	0
\$22.....	\$23.....	3.40	1.50	0	0	0	0	0	0	0	0	0
\$23.....	\$24.....	3.50	1.60	0	0	0	0	0	0	0	0	0
\$24.....	\$25.....	3.70	1.80	0	0	0	0	0	0	0	0	0
\$25.....	\$26.....	3.80	1.90	0	0	0	0	0	0	0	0	0
\$26.....	\$27.....	4.00	2.10	.10	0	0	0	0	0	0	0	0
\$27.....	\$28.....	4.10	2.20	.30	0	0	0	0	0	0	0	0
\$28.....	\$29.....	4.30	2.40	.40	0	0	0	0	0	0	0	0
\$29.....	\$30.....	4.40	2.50	.60	0	0	0	0	0	0	0	0
\$30.....	\$31.....	4.60	2.70	.70	0	0	0	0	0	0	0	0
\$31.....	\$32.....	4.70	2.80	.90	0	0	0	0	0	0	0	0
\$32.....	\$33.....	4.90	3.00	1.00	0	0	0	0	0	0	0	0
\$33.....	\$34.....	5.00	3.10	1.20	0	0	0	0	0	0	0	0
\$34.....	\$35.....	5.20	3.30	1.30	0	0	0	0	0	0	0	0
\$35.....	\$36.....	5.30	3.40	1.50	0	0	0	0	0	0	0	0
\$36.....	\$37.....	5.50	3.60	1.60	0	0	0	0	0	0	0	0
\$37.....	\$38.....	5.60	3.70	1.80	0	0	0	0	0	0	0	0
\$38.....	\$39.....	5.80	3.90	1.90	0	0	0	0	0	0	0	0
\$39.....	\$40.....	5.90	4.00	2.10	.20	0	0	0	0	0	0	0
\$40.....	\$41.....	6.10	4.20	2.20	.30	0	0	0	0	0	0	0
\$41.....	\$42.....	6.20	4.30	2.40	.50	0	0	0	0	0	0	0
\$42.....	\$43.....	6.40	4.50	2.50	.60	0	0	0	0	0	0	0
\$43.....	\$44.....	6.50	4.60	2.70	.80	0	0	0	0	0	0	0
\$44.....	\$45.....	6.70	4.80	2.80	.90	0	0	0	0	0	0	0
\$45.....	\$46.....	6.80	4.90	3.00	1.10	0	0	0	0	0	0	0
\$46.....	\$47.....	7.00	5.10	3.10	1.20	0	0	0	0	0	0	0
\$47.....	\$48.....	7.10	5.20	3.30	1.40	0	0	0	0	0	0	0
\$48.....	\$49.....	7.30	5.40	3.40	1.50	0	0	0	0	0	0	0
\$49.....	\$50.....	7.40	5.50	3.60	1.70	0	0	0	0	0	0	0
\$50.....	\$51.....	7.60	5.70	3.70	1.80	0	0	0	0	0	0	0
\$51.....	\$52.....	7.70	5.80	3.90	2.00	0	0	0	0	0	0	0
\$52.....	\$53.....	7.90	6.00	4.00	2.10	.20	0	0	0	0	0	0
\$53.....	\$54.....	8.00	6.10	4.20	2.30	.30	0	0	0	0	0	0
\$54.....	\$55.....	8.20	6.30	4.30	2.40	.50	0	0	0	0	0	0
\$55.....	\$56.....	8.30	6.40	4.50	2.60	.60	0	0	0	0	0	0
\$56.....	\$57.....	8.50	6.60	4.60	2.70	.80	0	0	0	0	0	0
\$57.....	\$58.....	8.60	6.70	4.80	2.90	.90	0	0	0	0	0	0
\$58.....	\$59.....	8.80	6.90	4.90	3.00	1.10	0	0	0	0	0	0
\$59.....	\$60.....	8.90	7.00	5.10	3.20	1.20	0	0	0	0	0	0
\$60.....	\$62.....	9.20	7.20	5.30	3.40	1.50	0	0	0	0	0	0
\$62.....	\$64.....	9.50	7.50	5.60	3.70	1.80	0	0	0	0	0	0
\$64.....	\$66.....	9.80	7.80	5.90	4.00	2.10	.10	0	0	0	0	0
\$66.....	\$68.....	10.10	8.10	6.20	4.30	2.40	.40	0	0	0	0	0
\$68.....	\$70.....	10.40	8.40	6.50	4.60	2.70	.70	0	0	0	0	0
\$70.....	\$72.....	10.70	8.70	6.80	4.90	3.00	1.00	0	0	0	0	0
\$72.....	\$74.....	11.00	9.00	7.10	5.20	3.30	1.30	0	0	0	0	0
\$74.....	\$76.....	11.30	9.30	7.40	5.50	3.60	1.60	0	0	0	0	0
\$76.....	\$78.....	11.60	9.60	7.70	5.80	3.90	1.90	0	0	0	0	0
\$78.....	\$80.....	11.90	9.90	8.00	6.10	4.20	2.20	.30	0	0	0	0
\$80.....	\$82.....	12.20	10.20	8.30	6.40	4.50	2.50	.60	0	0	0	0
\$82.....	\$84.....	12.50	10.50	8.60	6.70	4.80	2.80	.90	0	0	0	0
\$84.....	\$86.....	12.80	10.80	8.90	7.00	5.10	3.10	1.20	0	0	0	0
\$86.....	\$88.....	13.10	11.10	9.20	7.30	5.40	3.40	1.50	0	0	0	0
\$88.....	\$90.....	13.40	11.40	9.50	7.60	5.70	3.70	1.80	0	0	0	0
\$90.....	\$92.....	13.70	11.70	9.80	7.90	6.00	4.00	2.10	.20	0	0	0
\$92.....	\$94.....	14.00	12.00	10.10	8.20	6.30	4.30	2.40	.50	0	0	0
\$94.....	\$96.....	14.30	12.30	10.40	8.50	6.60	4.60	2.70	.80	0	0	0
\$96.....	\$98.....	14.60	12.60	10.70	8.80	6.90	4.90	3.00	1.10	0	0	0
\$98.....	\$100.....	14.90	12.90	11.00	9.10	7.20	5.20	3.30	1.40	0	0	0
\$100.....	\$105.....	15.40	13.50	11.50	9.60	7.70	5.80	3.80	1.90	0	0	0
\$105.....	\$110.....	16.10	14.20	12.30	10.40	8.40	6.50	4.60	2.70	.70	0	0
\$110.....	\$115.....	16.90	15.00	13.00	11.10	9.20	7.30	5.30	3.40	1.50	0	0
\$115.....	\$120.....	17.60	15.70	13.80	11.90	9.90	8.00	6.10	4.20	2.20	.30	0
\$120.....	\$125.....	18.40	16.50	14.50	12.60	10.70	8.80	6.80	4.90	3.00	1.10	0
\$125.....	\$130.....	19.10	17.20	15.30	13.40	11.40	9.50	7.60	5.70	3.70	1.80	0
\$130.....	\$135.....	19.90	18.00	16.00	14.10	12.20	10.30	8.30	6.40	4.50	2.60	.60
\$135.....	\$140.....	20.60	18.70	16.80	14.90	12.90	11.00	9.10	7.20	5.20	3.30	1.40
\$140.....	\$145.....	21.40	19.50	17.50	15.60	13.70	11.80	9.80	7.90	6.00	4.10	2.10
\$145.....	\$150.....	22.10	20.20	18.30	16.40	14.40	12.50	10.60	8.70	6.70	4.80	2.90
\$150.....	\$160.....	23.30	21.30	19.40	17.50	15.60	13.60	11.70	9.80	7.90	5.90	4.00
\$160.....	\$170.....	24.80	22.80	20.90	19.00	17.10	15.10	13.20	11.30	9.40	7.40	5.50
\$170.....	\$180.....	26.30	24.30	22.40	20.50	18.60	16.60	14.70	12.80	10.90	8.90	7.00
\$180.....	\$190.....	27.80	25.80	23.90	22.00	20.10	18.10	16.20	14.30	12.40	10.40	8.50
\$190.....	\$200.....	29.30	27.30	25.40	23.50	21.60	19.60	17.70	15.80	13.90	11.90	10.00
15 percent of the excess over \$200 plus—												
\$200 and over.....		30.00	28.10	26.20	24.20	22.30	20.40	18.50	16.50	14.60	12.70	10.80

"If the payroll period with respect to an employee is biweekly

And the wages are—		And the number of withholding exemptions claimed is—										
At least—	But less than—	0	1	2	3	4	5	6	7	8	9	10 or more
The amount of income tax to be withheld shall be—												
\$0.....	\$26	15% of wages	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
\$26.....	\$28	\$4.10	.20	0	0	0	0	0	0	0	0	0
\$28.....	\$30	4.40	.50	0	0	0	0	0	0	0	0	0
\$30.....	\$32	4.70	.80	0	0	0	0	0	0	0	0	0
\$32.....	\$34	5.00	1.10	0	0	0	0	0	0	0	0	0
\$34.....	\$36	5.30	1.40	0	0	0	0	0	0	0	0	0
\$36.....	\$38	5.60	1.70	0	0	0	0	0	0	0	0	0
\$38.....	\$40	5.90	2.00	0	0	0	0	0	0	0	0	0
\$40.....	\$42	6.20	2.30	0	0	0	0	0	0	0	0	0
\$42.....	\$44	6.50	2.60	0	0	0	0	0	0	0	0	0
\$44.....	\$46	6.80	2.90	0	0	0	0	0	0	0	0	0
\$46.....	\$48	7.10	3.20	0	0	0	0	0	0	0	0	0
\$48.....	\$50	7.40	3.50	0	0	0	0	0	0	0	0	0
\$50.....	\$52	7.70	3.80	0	0	0	0	0	0	0	0	0
\$52.....	\$54	8.00	4.10	.30	0	0	0	0	0	0	0	0
\$54.....	\$56	8.30	4.40	.60	0	0	0	0	0	0	0	0
\$56.....	\$58	8.60	4.70	.90	0	0	0	0	0	0	0	0
\$58.....	\$60	8.90	5.00	1.20	0	0	0	0	0	0	0	0
\$60.....	\$62	9.20	5.30	1.50	0	0	0	0	0	0	0	0
\$62.....	\$64	9.50	5.60	1.80	0	0	0	0	0	0	0	0
\$64.....	\$66	9.80	5.90	2.10	0	0	0	0	0	0	0	0
\$66.....	\$68	10.10	6.20	2.40	0	0	0	0	0	0	0	0
\$68.....	\$70	10.40	6.50	2.70	0	0	0	0	0	0	0	0
\$70.....	\$72	10.70	6.80	3.00	0	0	0	0	0	0	0	0
\$72.....	\$74	11.00	7.10	3.30	0	0	0	0	0	0	0	0
\$74.....	\$76	11.30	7.40	3.60	0	0	0	0	0	0	0	0
\$76.....	\$78	11.60	7.70	3.90	0	0	0	0	0	0	0	0
\$78.....	\$80	11.90	8.00	4.20	.30	0	0	0	0	0	0	0
\$80.....	\$82	12.20	8.30	4.50	.60	0	0	0	0	0	0	0
\$82.....	\$84	12.50	8.60	4.80	.90	0	0	0	0	0	0	0
\$84.....	\$86	12.80	8.90	5.10	1.20	0	0	0	0	0	0	0
\$86.....	\$88	13.10	9.20	5.40	1.50	0	0	0	0	0	0	0
\$88.....	\$90	13.40	9.50	5.70	1.80	0	0	0	0	0	0	0
\$90.....	\$92	13.70	9.80	6.00	2.10	0	0	0	0	0	0	0
\$92.....	\$94	14.00	10.10	6.30	2.40	0	0	0	0	0	0	0
\$94.....	\$96	14.30	10.40	6.60	2.70	0	0	0	0	0	0	0
\$96.....	\$98	14.60	10.70	6.90	3.00	0	0	0	0	0	0	0
\$98.....	\$100	14.90	11.00	7.20	3.30	0	0	0	0	0	0	0
\$100.....	\$102	15.20	11.30	7.50	3.60	0	0	0	0	0	0	0
\$102.....	\$104	15.50	11.60	7.80	3.90	.10	0	0	0	0	0	0
\$104.....	\$106	15.80	11.90	8.10	4.20	.40	0	0	0	0	0	0
\$106.....	\$108	16.10	12.20	8.40	4.50	.70	0	0	0	0	0	0
\$108.....	\$110	16.40	12.50	8.70	4.80	1.00	0	0	0	0	0	0
\$110.....	\$112	16.70	12.80	9.00	5.10	1.30	0	0	0	0	0	0
\$112.....	\$114	17.00	13.10	9.30	5.40	1.60	0	0	0	0	0	0
\$114.....	\$116	17.30	13.40	9.60	5.70	1.90	0	0	0	0	0	0
\$116.....	\$118	17.60	13.70	9.90	6.00	2.20	0	0	0	0	0	0
\$118.....	\$120	17.90	14.00	10.20	6.30	2.50	0	0	0	0	0	0
\$120.....	\$124	18.30	14.50	10.60	6.80	2.90	0	0	0	0	0	0
\$124.....	\$128	18.90	15.10	11.20	7.40	3.50	0	0	0	0	0	0
\$128.....	\$132	19.50	15.70	11.80	8.00	4.10	.30	0	0	0	0	0
\$132.....	\$136	20.10	16.30	12.40	8.60	4.70	.90	0	0	0	0	0
\$136.....	\$140	20.70	16.90	13.00	9.20	5.30	1.50	0	0	0	0	0
\$140.....	\$144	21.30	17.50	13.60	9.80	5.90	2.10	0	0	0	0	0
\$144.....	\$148	21.90	18.10	14.20	10.40	6.50	2.70	0	0	0	0	0
\$148.....	\$152	22.50	18.70	14.80	11.00	7.10	3.30	0	0	0	0	0
\$152.....	\$156	23.10	19.30	15.40	11.60	7.70	3.90	0	0	0	0	0
\$156.....	\$160	23.70	19.90	16.00	12.20	8.30	4.50	.60	0	0	0	0
\$160.....	\$164	24.30	20.50	16.60	12.80	8.90	5.10	1.20	0	0	0	0
\$164.....	\$168	24.90	21.10	17.20	13.40	9.50	5.70	1.80	0	0	0	0
\$168.....	\$172	25.50	21.70	17.80	14.00	10.10	6.30	2.40	0	0	0	0
\$172.....	\$176	26.10	22.30	18.40	14.60	10.70	6.90	3.00	0	0	0	0
\$176.....	\$180	26.70	22.90	19.00	15.20	11.30	7.50	3.60	0	0	0	0
\$180.....	\$184	27.30	23.50	19.60	15.80	11.90	8.10	4.20	.40	0	0	0
\$184.....	\$188	27.90	24.10	20.20	16.40	12.50	8.70	4.80	1.00	0	0	0
\$188.....	\$192	28.50	24.70	20.80	17.00	13.10	9.30	5.40	1.60	0	0	0
\$192.....	\$196	29.10	25.30	21.40	17.60	13.70	9.90	6.00	2.20	0	0	0
\$196.....	\$200	29.70	25.90	22.00	18.20	14.30	10.50	6.60	2.80	0	0	0
\$200.....	\$210	30.80	26.90	23.10	19.20	15.40	11.50	7.70	3.80	0	0	0
\$210.....	\$220	32.30	28.40	24.60	20.70	16.90	13.00	9.20	5.30	1.50	0	0
\$220.....	\$230	33.80	29.90	26.10	22.20	18.40	14.50	10.70	6.80	3.00	0	0
\$230.....	\$240	35.30	31.40	27.60	23.70	19.90	16.00	12.20	8.30	4.50	.60	0
\$240.....	\$250	36.80	32.90	29.10	25.20	21.40	17.50	13.70	9.80	6.00	2.10	0
\$250.....	\$260	38.30	34.40	30.60	26.70	22.90	19.00	15.20	11.30	7.50	3.60	0
\$260.....	\$270	39.80	35.90	32.10	28.20	24.40	20.50	16.70	12.80	9.00	5.10	1.30
\$270.....	\$280	41.30	37.40	33.60	29.70	25.90	22.00	18.20	14.30	10.50	6.60	2.80
\$280.....	\$290	42.80	38.90	35.10	31.20	27.40	23.50	19.70	15.80	12.00	8.10	4.30
\$290.....	\$300	44.30	40.40	36.60	32.70	28.90	25.00	21.20	17.30	13.50	9.60	5.80
\$300.....	\$320	46.50	42.70	38.80	35.00	31.10	27.30	23.40	19.60	15.70	11.90	8.00
\$320.....	\$340	49.50	45.70	41.80	38.00	34.10	30.30	26.40	22.60	18.70	14.90	11.00
\$340.....	\$360	52.50	48.70	44.80	41.00	37.10	33.30	29.40	25.60	21.70	17.90	14.00
\$360.....	\$380	55.50	51.70	47.80	44.00	40.10	36.30	32.40	28.60	24.70	20.90	17.00
\$380.....	\$400	58.50	54.70	50.80	47.00	43.10	39.30	35.40	31.60	27.70	23.90	20.00
15 percent of the excess over \$400 plus—												
\$400 and over.....		60.00	56.20	52.30	48.50	44.60	40.80	36.90	33.10	29.20	25.40	21.50

“If the payroll period with respect to an employee is semimonthly

And the wages are—		And the number of withholding exemptions claimed is—										
At least—	But less than—	0	1	2	3	4	5	6	7	8	9	10 or more
The amount of income tax to be withheld shall be—												
\$0-----	\$28-----	15% of wages	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
\$28-----	\$30-----	\$4.40	.20	0	0	0	0	0	0	0	0	0
\$30-----	\$32-----	4.70	.50	0	0	0	0	0	0	0	0	0
\$32-----	\$34-----	5.00	.80	0	0	0	0	0	0	0	0	0
\$34-----	\$36-----	5.30	1.10	0	0	0	0	0	0	0	0	0
\$36-----	\$38-----	5.60	1.40	0	0	0	0	0	0	0	0	0
\$38-----	\$40-----	5.90	1.70	0	0	0	0	0	0	0	0	0
\$40-----	\$42-----	6.20	2.00	0	0	0	0	0	0	0	0	0
\$42-----	\$44-----	6.50	2.30	0	0	0	0	0	0	0	0	0
\$44-----	\$46-----	6.80	2.60	0	0	0	0	0	0	0	0	0
\$46-----	\$48-----	7.10	2.90	0	0	0	0	0	0	0	0	0
\$48-----	\$50-----	7.40	3.20	0	0	0	0	0	0	0	0	0
\$50-----	\$52-----	7.70	3.50	0	0	0	0	0	0	0	0	0
\$52-----	\$54-----	8.00	3.80	0	0	0	0	0	0	0	0	0
\$54-----	\$56-----	8.30	4.10	0	0	0	0	0	0	0	0	0
\$56-----	\$58-----	8.60	4.40	.20	0	0	0	0	0	0	0	0
\$58-----	\$60-----	8.90	4.70	.50	0	0	0	0	0	0	0	0
\$60-----	\$62-----	9.20	5.00	.80	0	0	0	0	0	0	0	0
\$62-----	\$64-----	9.50	5.30	1.10	0	0	0	0	0	0	0	0
\$64-----	\$66-----	9.80	5.60	1.40	0	0	0	0	0	0	0	0
\$66-----	\$68-----	10.10	5.90	1.70	0	0	0	0	0	0	0	0
\$68-----	\$70-----	10.40	6.20	2.00	0	0	0	0	0	0	0	0
\$70-----	\$72-----	10.70	6.50	2.30	0	0	0	0	0	0	0	0
\$72-----	\$74-----	11.00	6.80	2.60	0	0	0	0	0	0	0	0
\$74-----	\$76-----	11.30	7.10	2.90	0	0	0	0	0	0	0	0
\$76-----	\$78-----	11.60	7.40	3.20	0	0	0	0	0	0	0	0
\$78-----	\$80-----	11.90	7.70	3.50	0	0	0	0	0	0	0	0
\$80-----	\$82-----	12.20	8.00	3.80	0	0	0	0	0	0	0	0
\$82-----	\$84-----	12.50	8.30	4.10	0	0	0	0	0	0	0	0
\$84-----	\$86-----	12.80	8.60	4.40	.30	0	0	0	0	0	0	0
\$86-----	\$88-----	13.10	8.90	4.70	.60	0	0	0	0	0	0	0
\$88-----	\$90-----	13.40	9.20	5.00	.90	0	0	0	0	0	0	0
\$90-----	\$92-----	13.70	9.50	5.30	1.20	0	0	0	0	0	0	0
\$92-----	\$94-----	14.00	9.80	5.60	1.50	0	0	0	0	0	0	0
\$94-----	\$96-----	14.30	10.10	5.90	1.80	0	0	0	0	0	0	0
\$96-----	\$98-----	14.60	10.40	6.20	2.10	0	0	0	0	0	0	0
\$98-----	\$100-----	14.90	10.70	6.50	2.40	0	0	0	0	0	0	0
\$100-----	\$102-----	15.20	11.00	6.80	2.70	0	0	0	0	0	0	0
\$102-----	\$104-----	15.50	11.30	7.10	3.00	0	0	0	0	0	0	0
\$104-----	\$106-----	15.80	11.60	7.40	3.30	0	0	0	0	0	0	0
\$106-----	\$108-----	16.10	11.90	7.70	3.60	0	0	0	0	0	0	0
\$108-----	\$110-----	16.40	12.20	8.00	3.90	0	0	0	0	0	0	0
\$110-----	\$112-----	16.70	12.50	8.30	4.20	0	0	0	0	0	0	0
\$112-----	\$114-----	17.00	12.80	8.60	4.50	.30	0	0	0	0	0	0
\$114-----	\$116-----	17.30	13.10	8.90	4.80	.60	0	0	0	0	0	0
\$116-----	\$118-----	17.60	13.40	9.20	5.10	.90	0	0	0	0	0	0
\$118-----	\$120-----	17.90	13.70	9.50	5.40	1.20	0	0	0	0	0	0
\$120-----	\$124-----	18.20	14.10	10.00	5.80	1.60	0	0	0	0	0	0
\$124-----	\$128-----	18.50	14.70	10.60	6.40	2.20	0	0	0	0	0	0
\$128-----	\$132-----	19.50	15.30	11.20	7.00	2.80	0	0	0	0	0	0
\$132-----	\$136-----	20.10	15.90	11.80	7.60	3.40	0	0	0	0	0	0
\$136-----	\$140-----	20.70	16.50	12.40	8.20	4.00	0	0	0	0	0	0
\$140-----	\$144-----	21.30	17.10	13.00	8.80	4.60	.50	0	0	0	0	0
\$144-----	\$148-----	21.90	17.70	13.60	9.40	5.20	1.10	0	0	0	0	0
\$148-----	\$152-----	22.50	18.30	14.20	10.00	5.80	1.70	0	0	0	0	0
\$152-----	\$156-----	23.10	18.90	14.80	10.60	6.40	2.30	0	0	0	0	0
\$156-----	\$160-----	23.70	19.50	15.40	11.20	7.00	2.90	0	0	0	0	0
\$160-----	\$164-----	24.30	20.10	16.00	11.80	7.60	3.50	0	0	0	0	0
\$164-----	\$168-----	24.90	20.70	16.60	12.40	8.20	4.10	0	0	0	0	0
\$168-----	\$172-----	25.50	21.30	17.20	13.00	8.80	4.70	.50	0	0	0	0
\$172-----	\$176-----	26.10	21.90	17.80	13.60	9.40	5.30	1.10	0	0	0	0
\$176-----	\$180-----	26.70	22.50	18.40	14.20	10.00	5.90	1.70	0	0	0	0
\$180-----	\$184-----	27.30	23.10	19.00	14.80	10.60	6.50	2.30	0	0	0	0
\$184-----	\$188-----	27.90	23.70	19.60	15.40	11.20	7.10	2.90	0	0	0	0
\$188-----	\$192-----	28.50	24.30	20.20	16.00	11.80	7.70	3.50	0	0	0	0
\$192-----	\$196-----	29.10	24.90	20.80	16.60	12.40	8.30	4.10	0	0	0	0
\$196-----	\$200-----	29.70	25.50	21.40	17.20	13.00	8.90	4.70	.50	0	0	0
\$200-----	\$210-----	30.80	26.60	22.40	18.30	14.10	9.90	5.80	1.60	0	0	0
\$210-----	\$220-----	32.30	28.10	23.90	19.80	15.60	11.40	7.30	3.10	0	0	0
\$220-----	\$230-----	33.80	29.60	25.40	21.30	17.10	12.90	8.80	4.60	.40	0	0
\$230-----	\$240-----	35.30	31.10	26.90	22.80	18.60	14.40	10.30	6.10	1.90	0	0
\$240-----	\$250-----	36.80	32.60	28.40	24.30	20.10	15.90	11.80	7.60	3.40	0	0
\$250-----	\$260-----	38.30	34.10	29.90	25.80	21.60	17.40	13.30	9.10	4.90	.80	0
\$260-----	\$270-----	39.80	35.60	31.40	27.30	23.10	18.90	14.80	10.60	6.40	2.30	0
\$270-----	\$280-----	41.30	37.10	32.90	28.80	24.60	20.40	16.30	12.10	7.90	3.80	0
\$280-----	\$290-----	42.80	38.60	34.40	30.30	26.10	21.90	17.80	13.60	9.40	5.30	1.10
\$290-----	\$300-----	44.30	40.10	35.90	31.80	27.60	23.40	19.30	15.10	10.90	6.80	2.60
\$300-----	\$320-----	46.50	42.30	38.20	34.00	29.80	25.70	21.50	17.30	13.20	9.00	4.80
\$320-----	\$340-----	49.50	45.30	41.20	37.00	32.80	28.70	24.50	20.30	16.20	12.00	7.80
\$340-----	\$360-----	52.50	48.30	44.20	40.00	35.80	31.70	27.50	23.30	19.20	15.00	10.80
\$360-----	\$380-----	55.50	51.30	47.20	43.00	38.80	34.70	30.50	26.30	22.20	18.00	13.80
\$380-----	\$400-----	58.50	54.30	50.20	46.00	41.80	37.70	33.50	29.30	25.20	21.00	16.80
\$400-----	\$420-----	61.50	57.30	53.20	49.00	44.80	40.70	36.50	32.30	28.20	24.00	19.80
\$420-----	\$440-----	64.50	60.30	56.20	52.00	47.80	43.70	39.50	35.30	31.20	27.00	22.80
\$440-----	\$460-----	67.50	63.30	59.20	55.00	50.80	46.70	42.50	38.30	34.20	30.00	25.80
\$460-----	\$480-----	70.50	66.30	62.20	58.00	53.80	49.70	45.50	41.30	37.20	33.00	28.80
\$480-----	\$500-----	73.50	69.30	65.20	61.00	56.80	52.70	48.50	44.30	40.20	36.00	31.80
15 percent of the excess over \$500 plus—												
\$500 and over-----		75.00	70.80	66.70	62.50	58.30	54.20	50.00	45.80	41.70	37.50	33.30

"If the payroll period with respect to an employee is monthly

And the wages are—		And the number of withholding exemptions claimed is—										
At least—	But less than—	0	1	2	3	4	5	6	7	8	9	10 or more
The amount of income tax to be withheld shall be—												
\$0.....	\$56.....	15% of wages	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
\$56.....	\$60.....	\$8.70	.40	0	0	0	0	0	0	0	0	0
\$60.....	\$64.....	9.30	1.00	0	0	0	0	0	0	0	0	0
\$64.....	\$68.....	9.90	1.60	0	0	0	0	0	0	0	0	0
\$68.....	\$72.....	10.50	2.20	0	0	0	0	0	0	0	0	0
\$72.....	\$76.....	11.10	2.80	0	0	0	0	0	0	0	0	0
\$76.....	\$80.....	11.70	3.40	0	0	0	0	0	0	0	0	0
\$80.....	\$84.....	12.30	4.00	0	0	0	0	0	0	0	0	0
\$84.....	\$88.....	12.90	4.60	0	0	0	0	0	0	0	0	0
\$88.....	\$92.....	13.50	5.20	0	0	0	0	0	0	0	0	0
\$92.....	\$96.....	14.10	5.80	0	0	0	0	0	0	0	0	0
\$96.....	\$100.....	14.70	6.40	0	0	0	0	0	0	0	0	0
\$100.....	\$104.....	15.30	7.00	0	0	0	0	0	0	0	0	0
\$104.....	\$108.....	15.90	7.60	0	0	0	0	0	0	0	0	0
\$108.....	\$112.....	16.50	8.20	0	0	0	0	0	0	0	0	0
\$112.....	\$116.....	17.10	8.80	.40	0	0	0	0	0	0	0	0
\$116.....	\$120.....	17.70	9.40	1.00	0	0	0	0	0	0	0	0
\$120.....	\$124.....	18.30	10.00	1.60	0	0	0	0	0	0	0	0
\$124.....	\$128.....	18.90	10.60	2.20	0	0	0	0	0	0	0	0
\$128.....	\$132.....	19.50	11.20	2.80	0	0	0	0	0	0	0	0
\$132.....	\$136.....	20.10	11.80	3.40	0	0	0	0	0	0	0	0
\$136.....	\$140.....	20.70	12.40	4.00	0	0	0	0	0	0	0	0
\$140.....	\$144.....	21.30	13.00	4.60	0	0	0	0	0	0	0	0
\$144.....	\$148.....	21.90	13.60	5.20	0	0	0	0	0	0	0	0
\$148.....	\$152.....	22.50	14.20	5.80	0	0	0	0	0	0	0	0
\$152.....	\$156.....	23.10	14.80	6.40	0	0	0	0	0	0	0	0
\$156.....	\$160.....	23.70	15.40	7.00	0	0	0	0	0	0	0	0
\$160.....	\$164.....	24.30	16.00	7.60	0	0	0	0	0	0	0	0
\$164.....	\$168.....	24.90	16.60	8.20	0	0	0	0	0	0	0	0
\$168.....	\$172.....	25.50	17.20	8.80	.50	0	0	0	0	0	0	0
\$172.....	\$176.....	26.10	17.80	9.40	1.10	0	0	0	0	0	0	0
\$176.....	\$180.....	26.70	18.40	10.00	1.70	0	0	0	0	0	0	0
\$180.....	\$184.....	27.30	19.00	10.60	2.30	0	0	0	0	0	0	0
\$184.....	\$188.....	27.90	19.60	11.20	2.90	0	0	0	0	0	0	0
\$188.....	\$192.....	28.50	20.20	11.80	3.50	0	0	0	0	0	0	0
\$192.....	\$196.....	29.10	20.80	12.40	4.10	0	0	0	0	0	0	0
\$196.....	\$200.....	29.70	21.40	13.00	4.70	0	0	0	0	0	0	0
\$200.....	\$204.....	30.30	22.00	13.60	5.30	0	0	0	0	0	0	0
\$204.....	\$208.....	30.90	22.60	14.20	5.90	0	0	0	0	0	0	0
\$208.....	\$212.....	31.50	23.20	14.80	6.50	0	0	0	0	0	0	0
\$212.....	\$216.....	32.10	23.80	15.40	7.10	0	0	0	0	0	0	0
\$216.....	\$220.....	32.70	24.40	16.00	7.70	0	0	0	0	0	0	0
\$220.....	\$224.....	33.30	25.00	16.60	8.30	0	0	0	0	0	0	0
\$224.....	\$228.....	33.90	25.60	17.20	8.90	.60	0	0	0	0	0	0
\$228.....	\$232.....	34.50	26.20	17.80	9.50	1.20	0	0	0	0	0	0
\$232.....	\$236.....	35.10	26.80	18.40	10.10	1.80	0	0	0	0	0	0
\$236.....	\$240.....	35.70	27.40	19.00	10.70	2.40	0	0	0	0	0	0
\$240.....	\$248.....	36.60	28.30	19.90	11.60	3.30	0	0	0	0	0	0
\$248.....	\$256.....	37.80	29.50	21.10	12.80	4.50	0	0	0	0	0	0
\$256.....	\$264.....	39.00	30.70	22.30	14.00	5.70	0	0	0	0	0	0
\$264.....	\$272.....	40.20	31.90	23.50	15.20	6.90	0	0	0	0	0	0
\$272.....	\$280.....	41.40	33.10	24.70	16.40	8.10	0	0	0	0	0	0
\$280.....	\$288.....	42.60	34.30	25.90	17.60	9.30	.90	0	0	0	0	0
\$288.....	\$296.....	43.80	35.50	27.10	18.80	10.50	2.10	0	0	0	0	0
\$296.....	\$304.....	45.00	36.70	28.30	20.00	11.70	3.30	0	0	0	0	0
\$304.....	\$312.....	46.20	37.90	29.50	21.20	12.90	4.50	0	0	0	0	0
\$312.....	\$320.....	47.40	39.10	30.70	22.40	14.10	5.70	0	0	0	0	0
\$320.....	\$328.....	48.60	40.30	31.90	23.60	15.30	6.90	0	0	0	0	0
\$328.....	\$336.....	49.80	41.50	33.10	24.80	16.50	8.10	0	0	0	0	0
\$336.....	\$344.....	51.00	42.70	34.30	26.00	17.70	9.30	1.00	0	0	0	0
\$344.....	\$352.....	52.20	43.90	35.50	27.20	18.90	10.50	2.20	0	0	0	0
\$352.....	\$360.....	53.40	45.10	36.70	28.40	20.10	11.70	3.40	0	0	0	0
\$360.....	\$368.....	54.60	46.30	37.90	29.60	21.30	12.90	4.60	0	0	0	0
\$368.....	\$376.....	55.80	47.50	39.10	30.80	22.50	14.10	5.80	0	0	0	0
\$376.....	\$384.....	57.00	48.70	40.30	32.00	23.70	15.30	7.00	0	0	0	0
\$384.....	\$392.....	58.20	49.90	41.50	33.20	24.90	16.50	8.20	0	0	0	0
\$392.....	\$400.....	59.40	51.10	42.70	34.40	26.10	17.70	9.40	1.10	0	0	0
\$400.....	\$420.....	61.50	53.20	44.80	36.50	28.20	19.80	11.50	3.20	0	0	0
\$420.....	\$440.....	64.50	56.20	47.80	39.50	31.20	22.80	14.50	6.20	0	0	0
\$440.....	\$460.....	67.50	59.20	50.80	42.50	34.20	25.80	17.50	9.20	.80	0	0
\$460.....	\$480.....	70.50	62.20	53.80	45.50	37.20	28.80	20.50	12.20	3.80	0	0
\$480.....	\$500.....	73.50	65.20	56.80	48.50	40.20	31.80	23.50	15.20	6.80	0	0
\$500.....	\$520.....	76.50	68.20	59.80	51.50	43.20	34.80	26.50	18.20	9.80	1.50	0
\$520.....	\$540.....	79.50	71.20	62.80	54.50	46.20	37.80	29.50	21.20	12.80	4.50	0
\$540.....	\$560.....	82.50	74.20	65.80	57.50	49.20	40.80	32.50	24.20	15.80	7.50	0
\$560.....	\$580.....	85.50	77.20	68.80	60.50	52.20	43.80	35.50	27.20	18.80	10.50	2.20
\$580.....	\$600.....	88.50	80.20	71.80	63.50	55.20	46.80	38.50	30.20	21.80	13.50	5.20
\$600.....	\$640.....	93.00	84.70	76.30	68.00	59.70	51.30	43.00	34.70	26.30	18.00	9.70
\$640.....	\$680.....	99.00	90.70	82.30	74.00	65.70	57.30	49.00	40.70	32.30	24.00	15.70
\$680.....	\$720.....	105.00	96.70	88.30	80.00	71.70	63.30	55.00	46.70	38.30	30.00	21.70
\$720.....	\$760.....	111.00	102.70	94.30	86.00	77.70	69.30	61.00	52.70	44.30	36.00	27.70
\$760.....	\$800.....	117.00	108.70	100.30	92.00	83.70	75.30	67.00	58.70	50.30	42.00	33.70
\$800.....	\$840.....	123.00	114.70	106.30	98.00	89.70	81.30	73.00	64.70	56.30	48.00	39.70
\$840.....	\$880.....	129.00	120.70	112.30	104.00	95.70	87.30	79.00	70.70	62.30	54.00	45.70
\$880.....	\$920.....	135.00	126.70	118.30	110.00	101.70	93.30	85.00	76.70	68.30	60.00	51.70
\$920.....	\$960.....	141.00	132.70	124.30	116.00	107.70	99.30	91.00	82.70	74.30	66.00	57.70
\$960.....	\$1,000.....	147.00	138.70	130.30	122.00	113.70	105.30	97.00	88.70	80.30	72.00	63.70
15 percent of the excess over \$1,000 plus—												
\$1,000 and over.....		150.00	141.70	133.30	125.00	116.70	108.30	100.00	91.70	83.30	75.00	66.70

"If the payroll period with respect to an employee is a daily payroll period or a miscellaneous payroll period—

And the wages divided by the number of days in such period are—		And the number of withholding exemptions claimed is—										
		0	1	2	3	4	5	6	7	8	9	10 or more
At least—	But less than—	The amount of tax to be withheld shall be the following amount multiplied by the number of days in such period—										
		15% of wages	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
\$0.....	\$2.00.....	\$0.30	.05	0	0	0	0	0	0	0	0	0
\$2.00.....	\$2.25.....	.35	.10	0	0	0	0	0	0	0	0	0
\$2.25.....	\$2.50.....	.40	.10	0	0	0	0	0	0	0	0	0
\$2.50.....	\$2.75.....	.45	.15	0	0	0	0	0	0	0	0	0
\$2.75.....	\$3.00.....	.45	.20	0	0	0	0	0	0	0	0	0
\$3.00.....	\$3.25.....	.50	.25	0	0	0	0	0	0	0	0	0
\$3.25.....	\$3.50.....	.55	.25	0	0	0	0	0	0	0	0	0
\$3.50.....	\$3.75.....	.60	.30	.05	0	0	0	0	0	0	0	0
\$3.75.....	\$4.00.....	.60	.35	.05	0	0	0	0	0	0	0	0
\$4.00.....	\$4.25.....	.65	.40	.10	0	0	0	0	0	0	0	0
\$4.25.....	\$4.50.....	.70	.40	.15	0	0	0	0	0	0	0	0
\$4.50.....	\$4.75.....	.75	.45	.20	0	0	0	0	0	0	0	0
\$4.75.....	\$5.00.....	.75	.50	.20	0	0	0	0	0	0	0	0
\$5.00.....	\$5.25.....	.80	.55	.25	0	0	0	0	0	0	0	0
\$5.25.....	\$5.50.....	.85	.55	.30	0	0	0	0	0	0	0	0
\$5.50.....	\$5.75.....	.90	.60	.35	.05	0	0	0	0	0	0	0
\$5.75.....	\$6.00.....	.90	.65	.35	.10	0	0	0	0	0	0	0
\$6.00.....	\$6.25.....	.95	.70	.40	.15	0	0	0	0	0	0	0
\$6.25.....	\$6.50.....	1.00	.70	.45	.15	0	0	0	0	0	0	0
\$6.50.....	\$6.75.....	1.05	.75	.50	.20	0	0	0	0	0	0	0
\$6.75.....	\$7.00.....	1.05	.80	.50	.25	0	0	0	0	0	0	0
\$7.00.....	\$7.25.....	1.10	.85	.55	.30	0	0	0	0	0	0	0
\$7.25.....	\$7.50.....	1.15	.85	.60	.30	.05	0	0	0	0	0	0
\$7.50.....	\$7.75.....	1.20	.90	.65	.35	.10	0	0	0	0	0	0
\$7.75.....	\$8.00.....	1.20	.95	.65	.40	.10	0	0	0	0	0	0
\$8.00.....	\$8.25.....	1.25	1.00	.70	.45	.15	0	0	0	0	0	0
\$8.25.....	\$8.50.....	1.30	1.00	.75	.45	.20	0	0	0	0	0	0
\$8.50.....	\$8.75.....	1.35	1.05	.80	.50	.25	0	0	0	0	0	0
\$8.75.....	\$9.00.....	1.35	1.10	.80	.55	.25	0	0	0	0	0	0
\$9.00.....	\$9.25.....	1.40	1.15	.85	.60	.30	.05	0	0	0	0	0
\$9.25.....	\$9.50.....	1.45	1.15	.90	.60	.35	.05	0	0	0	0	0
\$9.50.....	\$9.75.....	1.50	1.20	.95	.65	.40	.10	0	0	0	0	0
\$9.75.....	\$10.00.....	1.55	1.25	1.00	.70	.45	.15	0	0	0	0	0
\$10.00.....	\$10.50.....	1.60	1.35	1.05	.80	.60	.25	0	0	0	0	0
\$10.50.....	\$11.00.....	1.70	1.40	1.15	.85	.60	.30	.05	0	0	0	0
\$11.00.....	\$11.50.....	1.75	1.50	1.20	.95	.65	.40	.10	0	0	0	0
\$11.50.....	\$12.00.....	1.85	1.55	1.30	1.00	.75	.45	.20	0	0	0	0
\$12.00.....	\$12.50.....	1.90	1.65	1.35	1.10	.80	.55	.25	0	0	0	0
\$12.50.....	\$13.00.....	2.00	1.70	1.45	1.15	.90	.60	.35	.05	0	0	0
\$13.00.....	\$13.50.....	2.05	1.80	1.50	1.25	.95	.70	.40	.15	0	0	0
\$13.50.....	\$14.00.....	2.15	1.85	1.60	1.30	1.05	.75	.50	.20	0	0	0
\$14.00.....	\$14.50.....	2.20	1.95	1.65	1.40	1.10	.85	.55	.30	0	0	0
\$14.50.....	\$15.00.....	2.30	2.00	1.75	1.45	1.20	.90	.65	.35	.10	0	0
\$15.00.....	\$15.50.....	2.35	2.10	1.80	1.55	1.25	1.00	.70	.45	.15	0	0
\$15.50.....	\$16.00.....	2.45	2.15	1.90	1.60	1.35	1.05	.80	.50	.25	0	0
\$16.00.....	\$16.50.....	2.50	2.25	1.95	1.70	1.40	1.15	.85	.60	.30	.05	0
\$16.50.....	\$17.00.....	2.60	2.30	2.05	1.75	1.50	1.20	.95	.65	.40	.10	0
\$17.00.....	\$17.50.....	2.65	2.40	2.10	1.85	1.55	1.30	1.00	.75	.45	.20	0
\$17.50.....	\$18.00.....	2.75	2.45	2.20	1.90	1.65	1.35	1.10	.80	.55	.25	0
\$18.00.....	\$18.50.....	2.80	2.55	2.25	2.00	1.70	1.45	1.15	.90	.60	.35	.05
\$18.50.....	\$19.00.....	2.90	2.60	2.35	2.05	1.80	1.60	1.25	.95	.70	.40	.15
\$19.00.....	\$19.50.....	2.95	2.70	2.40	2.15	1.85	1.60	1.30	1.05	.75	.50	.20
\$19.50.....	\$20.00.....	3.10	2.80	2.55	2.25	2.00	1.70	1.45	1.15	.90	.60	.35
\$20.00.....	\$21.00.....	3.25	2.95	2.70	2.40	2.15	1.85	1.60	1.30	1.05	.75	.50
\$21.00.....	\$22.00.....	3.40	3.10	2.85	2.55	2.30	2.00	1.75	1.45	1.20	.90	.65
\$22.00.....	\$23.00.....	3.55	3.25	3.00	2.70	2.45	2.15	1.90	1.60	1.35	1.05	.80
\$23.00.....	\$24.00.....	3.70	3.40	3.15	2.85	2.60	2.30	2.05	1.75	1.50	1.20	.95
\$24.00.....	\$25.00.....	3.85	3.55	3.30	3.00	2.75	2.45	2.20	1.90	1.65	1.35	1.10
\$25.00.....	\$26.00.....	4.00	3.70	3.45	3.15	2.90	2.60	2.35	2.05	1.80	1.50	1.25
\$26.00.....	\$27.00.....	4.15	3.85	3.60	3.30	3.05	2.75	2.50	2.20	1.95	1.65	1.40
\$27.00.....	\$28.00.....	4.30	4.00	3.75	3.45	3.20	2.90	2.65	2.35	2.10	1.80	1.55
\$28.00.....	\$29.00.....	4.45	4.15	3.90	3.60	3.35	3.05	2.80	2.50	2.25	1.95	1.70
\$29.00.....	\$30.00.....											
		15 percent of the excess over \$30 plus—										
\$30 and over.....		4.50	4.25	3.95	3.70	3.40	3.15	2.85	2.60	2.30	2.05	1.75

1 ~~“(B) WAGES PAID AFTER DECEMBER 31, 1964.—~~

2 At the election of the employer with respect to any
3 employee, the employer shall deduct and withhold upon
4 the wages paid to such employee after December 31,
5 1964, a tax determined in accordance with the follow-
6 ing tables, which shall be in lieu of the tax required to be
7 deducted and withheld under subsection (a):

8 (b) *WAGE BRACKET WITHHOLDING.*—Paragraph (1)
9 of section 3402(c) (relating to wage bracket withholding) is
10 amended to read as follows:

11 “(1) At the election of the employer with respect to
12 any employee, the employer shall deduct and withhold
13 upon the wages paid to such employee a tax determined
14 in accordance with the following tables, which shall be
15 in lieu of the tax required to be deducted and withheld
16 under subsection (a):

"If the payroll period with respect to an employee is weekly—

And the wages are—		And the number of withholding exemptions claimed is—										
At least—	But less than—	0	1	2	3	4	5	6	7	8	9	10 or more
The amount of income tax to be withheld shall be—												
\$0.....	\$13.....	14% of wages	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
\$13.....	\$14.....	\$1.90	.10	0	0	0	0	0	0	0	0	0
\$14.....	\$15.....	2.00	.20	0	0	0	0	0	0	0	0	0
\$15.....	\$16.....	2.20	.40	0	0	0	0	0	0	0	0	0
\$16.....	\$17.....	2.30	.50	0	0	0	0	0	0	0	0	0
\$17.....	\$18.....	2.50	.70	0	0	0	0	0	0	0	0	0
\$18.....	\$19.....	2.60	.80	0	0	0	0	0	0	0	0	0
\$19.....	\$20.....	2.70	.90	0	0	0	0	0	0	0	0	0
\$20.....	\$21.....	2.90	1.10	0	0	0	0	0	0	0	0	0
\$21.....	\$22.....	3.00	1.20	0	0	0	0	0	0	0	0	0
\$22.....	\$23.....	3.20	1.40	0	0	0	0	0	0	0	0	0
\$23.....	\$24.....	3.30	1.50	0	0	0	0	0	0	0	0	0
\$24.....	\$25.....	3.40	1.60	0	0	0	0	0	0	0	0	0
\$25.....	\$26.....	3.60	1.80	0	0	0	0	0	0	0	0	0
\$26.....	\$27.....	3.70	1.90	.10	0	0	0	0	0	0	0	0
\$27.....	\$28.....	3.90	2.10	.30	0	0	0	0	0	0	0	0
\$28.....	\$29.....	4.00	2.20	.40	0	0	0	0	0	0	0	0
\$29.....	\$30.....	4.10	2.30	.50	0	0	0	0	0	0	0	0
\$30.....	\$31.....	4.30	2.50	.70	0	0	0	0	0	0	0	0
\$31.....	\$32.....	4.40	2.60	.80	0	0	0	0	0	0	0	0
\$32.....	\$33.....	4.60	2.80	1.00	0	0	0	0	0	0	0	0
\$33.....	\$34.....	4.70	2.90	1.10	0	0	0	0	0	0	0	0
\$34.....	\$35.....	4.80	3.00	1.20	0	0	0	0	0	0	0	0
\$35.....	\$36.....	5.00	3.20	1.40	0	0	0	0	0	0	0	0
\$36.....	\$37.....	5.10	3.30	1.50	0	0	0	0	0	0	0	0
\$37.....	\$38.....	5.30	3.50	1.70	0	0	0	0	0	0	0	0
\$38.....	\$39.....	5.40	3.60	1.80	0	0	0	0	0	0	0	0
\$39.....	\$40.....	5.50	3.70	1.90	.10	0	0	0	0	0	0	0
\$40.....	\$41.....	5.70	3.90	2.10	.30	0	0	0	0	0	0	0
\$41.....	\$42.....	5.80	4.00	2.20	.40	0	0	0	0	0	0	0
\$42.....	\$43.....	6.00	4.20	2.40	.60	0	0	0	0	0	0	0
\$43.....	\$44.....	6.10	4.30	2.50	.70	0	0	0	0	0	0	0
\$44.....	\$45.....	6.20	4.40	2.60	.80	0	0	0	0	0	0	0
\$45.....	\$46.....	6.40	4.60	2.80	1.00	0	0	0	0	0	0	0
\$46.....	\$47.....	6.50	4.70	2.90	1.10	0	0	0	0	0	0	0
\$47.....	\$48.....	6.70	4.90	3.10	1.30	0	0	0	0	0	0	0
\$48.....	\$49.....	6.80	5.00	3.20	1.40	0	0	0	0	0	0	0
\$49.....	\$50.....	6.90	5.10	3.30	1.50	0	0	0	0	0	0	0
\$50.....	\$51.....	7.10	5.30	3.50	1.70	0	0	0	0	0	0	0
\$51.....	\$52.....	7.20	5.40	3.60	1.80	0	0	0	0	0	0	0
\$52.....	\$53.....	7.40	5.60	3.80	2.00	.20	0	0	0	0	0	0
\$53.....	\$54.....	7.50	5.70	3.90	2.10	.30	0	0	0	0	0	0
\$54.....	\$55.....	7.60	5.80	4.00	2.20	.50	0	0	0	0	0	0
\$55.....	\$56.....	7.80	6.00	4.20	2.40	.60	0	0	0	0	0	0
\$56.....	\$57.....	7.90	6.10	4.30	2.50	.70	0	0	0	0	0	0
\$57.....	\$58.....	8.10	6.30	4.50	2.70	.90	0	0	0	0	0	0
\$58.....	\$59.....	8.20	6.40	4.60	2.80	1.00	0	0	0	0	0	0
\$59.....	\$60.....	8.30	6.50	4.70	2.90	1.20	0	0	0	0	0	0
\$60.....	\$62.....	8.50	6.70	5.00	3.20	1.40	0	0	0	0	0	0
\$62.....	\$64.....	8.80	7.00	5.20	3.40	1.60	0	0	0	0	0	0
\$64.....	\$66.....	9.10	7.30	5.50	3.70	1.90	.10	0	0	0	0	0
\$66.....	\$68.....	9.40	7.60	5.80	4.00	2.20	.40	0	0	0	0	0
\$68.....	\$70.....	9.70	7.90	6.10	4.30	2.50	.70	0	0	0	0	0
\$70.....	\$72.....	9.90	8.10	6.40	4.60	2.80	1.00	0	0	0	0	0
\$72.....	\$74.....	10.20	8.40	6.60	4.80	3.00	1.20	0	0	0	0	0
\$74.....	\$76.....	10.50	8.70	6.90	5.10	3.30	1.50	0	0	0	0	0
\$76.....	\$78.....	10.80	9.00	7.20	5.40	3.60	1.80	0	0	0	0	0
\$78.....	\$80.....	11.10	9.30	7.50	5.70	3.90	2.10	.30	0	0	0	0
\$80.....	\$82.....	11.30	9.50	7.80	6.00	4.20	2.40	.60	0	0	0	0
\$82.....	\$84.....	11.60	9.80	8.00	6.20	4.40	2.60	.90	0	0	0	0
\$84.....	\$86.....	11.90	10.10	8.30	6.50	4.70	2.90	1.10	0	0	0	0
\$86.....	\$88.....	12.20	10.40	8.60	6.80	5.00	3.20	1.40	0	0	0	0
\$88.....	\$90.....	12.50	10.70	8.90	7.10	5.30	3.50	1.70	0	0	0	0
\$90.....	\$92.....	12.70	10.90	9.20	7.40	5.60	3.80	2.00	.20	0	0	0
\$92.....	\$94.....	13.00	11.20	9.40	7.60	5.80	4.00	2.30	.50	0	0	0
\$94.....	\$96.....	13.30	11.50	9.70	7.90	6.10	4.30	2.50	.70	0	0	0
\$96.....	\$98.....	13.60	11.80	10.00	8.20	6.40	4.60	2.80	1.00	0	0	0
\$98.....	\$100.....	13.90	12.10	10.30	8.50	6.70	4.90	3.10	1.30	0	0	0
\$100.....	\$105.....	14.40	12.60	10.80	9.00	7.20	5.40	3.60	1.80	0	0	0
\$105.....	\$110.....	15.10	13.30	11.50	9.70	7.90	6.10	4.30	2.50	.70	0	0
\$110.....	\$115.....	15.80	14.00	12.20	10.40	8.60	6.80	5.00	3.20	1.40	0	0
\$115.....	\$120.....	16.50	14.70	12.90	11.10	9.30	7.50	5.70	3.90	2.10	.30	0
\$120.....	\$125.....	17.20	15.40	13.60	11.80	10.00	8.20	6.40	4.60	2.80	1.00	0
\$125.....	\$130.....	17.90	16.10	14.30	12.50	10.70	8.90	7.10	5.30	3.50	1.70	0
\$130.....	\$135.....	18.60	16.80	15.00	13.20	11.40	9.60	7.80	6.00	4.20	2.40	.60
\$135.....	\$140.....	19.30	17.50	15.70	13.90	12.10	10.30	8.50	6.70	4.90	3.10	1.30
\$140.....	\$145.....	20.00	18.20	16.40	14.60	12.80	11.00	9.20	7.40	5.60	3.80	2.00
\$145.....	\$150.....	20.70	18.90	17.10	15.30	13.50	11.70	9.90	8.10	6.30	4.50	2.70
\$150.....	\$160.....	21.70	19.90	18.10	16.30	14.50	12.70	10.90	9.10	7.30	5.50	3.80
\$160.....	\$170.....	23.10	21.30	19.50	17.70	15.90	14.10	12.30	10.50	8.70	6.90	5.20
\$170.....	\$180.....	24.50	22.70	20.90	19.10	17.30	15.50	13.70	11.90	10.10	8.30	6.60
\$180.....	\$190.....	25.90	24.10	22.30	20.50	18.70	16.90	15.10	13.30	11.50	9.70	8.00
\$190.....	\$200.....	27.30	25.50	23.70	21.90	20.10	18.30	16.50	14.70	12.90	11.10	9.40
14 percent of the excess over \$200 plus—												
\$200 and over.....		28.00	26.20	24.40	22.60	20.80	19.00	17.20	15.40	13.60	11.80	10.10

"If the payroll period with respect to an employee is biweekly—

And the wages are—		And the number of withholding exemptions claimed is—										
At least—	But less than—	0	1	2	3	4	5	6	7	8	9	10 or more
The amount of income tax to be withheld shall be—												
\$0.....	\$26.....	14% of wages	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
\$26.....	\$28.....	\$3.80	.20	0	0	0	0	0	0	0	0	0
\$28.....	\$30.....	4.10	.50	0	0	0	0	0	0	0	0	0
\$30.....	\$32.....	4.30	.80	0	0	0	0	0	0	0	0	0
\$32.....	\$34.....	4.60	1.00	0	0	0	0	0	0	0	0	0
\$34.....	\$36.....	4.90	1.30	0	0	0	0	0	0	0	0	0
\$36.....	\$38.....	5.20	1.60	0	0	0	0	0	0	0	0	0
\$38.....	\$40.....	5.50	1.90	0	0	0	0	0	0	0	0	0
\$40.....	\$42.....	5.70	2.20	0	0	0	0	0	0	0	0	0
\$42.....	\$44.....	6.00	2.40	0	0	0	0	0	0	0	0	0
\$44.....	\$46.....	6.30	2.70	0	0	0	0	0	0	0	0	0
\$46.....	\$48.....	6.60	3.00	0	0	0	0	0	0	0	0	0
\$48.....	\$50.....	6.90	3.30	0	0	0	0	0	0	0	0	0
\$50.....	\$52.....	7.10	3.60	0	0	0	0	0	0	0	0	0
\$52.....	\$54.....	7.40	3.80	.20	0	0	0	0	0	0	0	0
\$54.....	\$56.....	7.70	4.10	.50	0	0	0	0	0	0	0	0
\$56.....	\$58.....	8.00	4.40	.80	0	0	0	0	0	0	0	0
\$58.....	\$60.....	8.30	4.70	1.10	0	0	0	0	0	0	0	0
\$60.....	\$62.....	8.50	5.00	1.40	0	0	0	0	0	0	0	0
\$62.....	\$64.....	8.80	5.20	1.60	0	0	0	0	0	0	0	0
\$64.....	\$66.....	9.10	5.50	1.90	0	0	0	0	0	0	0	0
\$66.....	\$68.....	9.40	5.80	2.20	0	0	0	0	0	0	0	0
\$68.....	\$70.....	9.70	6.10	2.50	0	0	0	0	0	0	0	0
\$70.....	\$72.....	9.90	6.40	2.80	0	0	0	0	0	0	0	0
\$72.....	\$74.....	10.20	6.60	3.00	0	0	0	0	0	0	0	0
\$74.....	\$76.....	10.50	6.90	3.30	0	0	0	0	0	0	0	0
\$76.....	\$78.....	10.80	7.20	3.60	0	0	0	0	0	0	0	0
\$78.....	\$80.....	11.10	7.50	3.90	.30	0	0	0	0	0	0	0
\$80.....	\$82.....	11.30	7.80	4.20	.60	0	0	0	0	0	0	0
\$82.....	\$84.....	11.60	8.00	4.40	.90	0	0	0	0	0	0	0
\$84.....	\$86.....	11.90	8.30	4.70	1.10	0	0	0	0	0	0	0
\$86.....	\$88.....	12.20	8.60	5.00	1.40	0	0	0	0	0	0	0
\$88.....	\$90.....	12.50	8.90	5.30	1.70	0	0	0	0	0	0	0
\$90.....	\$92.....	12.70	9.20	5.60	2.00	0	0	0	0	0	0	0
\$92.....	\$94.....	13.00	9.40	5.80	2.30	0	0	0	0	0	0	0
\$94.....	\$96.....	13.30	9.70	6.10	2.50	0	0	0	0	0	0	0
\$96.....	\$98.....	13.60	10.00	6.40	2.80	0	0	0	0	0	0	0
\$98.....	\$100.....	13.90	10.30	6.70	3.10	0	0	0	0	0	0	0
\$100.....	\$102.....	14.10	10.60	7.00	3.40	0	0	0	0	0	0	0
\$102.....	\$104.....	14.40	10.80	7.20	3.70	.10	0	0	0	0	0	0
\$104.....	\$106.....	14.70	11.10	7.50	3.90	.30	0	0	0	0	0	0
\$106.....	\$108.....	15.00	11.40	7.80	4.20	.60	0	0	0	0	0	0
\$108.....	\$110.....	15.30	11.70	8.10	4.50	.90	0	0	0	0	0	0
\$110.....	\$112.....	15.50	12.00	8.40	4.80	1.20	0	0	0	0	0	0
\$112.....	\$114.....	15.80	12.20	8.60	5.10	1.50	0	0	0	0	0	0
\$114.....	\$116.....	16.10	12.50	8.90	5.30	1.70	0	0	0	0	0	0
\$116.....	\$118.....	16.40	12.80	9.20	5.60	2.00	0	0	0	0	0	0
\$118.....	\$120.....	16.70	13.10	9.50	5.90	2.30	0	0	0	0	0	0
\$120.....	\$124.....	17.10	13.50	9.90	6.30	2.70	0	0	0	0	0	0
\$124.....	\$128.....	17.60	14.10	10.50	6.90	3.30	0	0	0	0	0	0
\$128.....	\$132.....	18.20	14.60	11.00	7.40	3.80	.30	0	0	0	0	0
\$132.....	\$136.....	18.80	15.20	11.60	8.00	4.40	.80	0	0	0	0	0
\$136.....	\$140.....	19.30	15.70	12.10	8.60	5.00	1.40	0	0	0	0	0
\$140.....	\$144.....	19.90	16.30	12.70	9.10	5.50	1.90	0	0	0	0	0
\$144.....	\$148.....	20.40	16.90	13.30	9.70	6.10	2.50	0	0	0	0	0
\$148.....	\$152.....	21.00	17.40	13.80	10.20	6.60	3.10	0	0	0	0	0
\$152.....	\$156.....	21.60	18.00	14.40	10.80	7.20	3.60	0	0	0	0	0
\$156.....	\$160.....	22.10	18.50	14.90	11.40	7.80	4.20	.60	0	0	0	0
\$160.....	\$164.....	22.70	19.10	15.50	11.90	8.30	4.70	1.10	0	0	0	0
\$164.....	\$168.....	23.20	19.70	16.10	12.50	8.90	5.30	1.70	0	0	0	0
\$168.....	\$172.....	23.80	20.20	16.60	13.00	9.40	5.90	2.30	0	0	0	0
\$172.....	\$176.....	24.40	20.80	17.20	13.60	10.00	6.40	2.80	0	0	0	0
\$176.....	\$180.....	24.90	21.30	17.70	14.20	10.60	7.00	3.40	0	0	0	0
\$180.....	\$184.....	25.50	21.90	18.30	14.70	11.10	7.50	3.90	.40	0	0	0
\$184.....	\$188.....	26.00	22.50	18.90	15.30	11.70	8.10	4.50	.90	0	0	0
\$188.....	\$192.....	26.60	23.00	19.40	15.80	12.20	8.70	5.10	1.50	0	0	0
\$192.....	\$196.....	27.20	23.60	20.00	16.40	12.80	9.20	5.60	2.00	0	0	0
\$196.....	\$200.....	27.70	24.10	20.50	17.00	13.40	9.80	6.20	2.60	0	0	0
\$200.....	\$210.....	28.70	25.10	21.50	17.90	14.30	10.80	7.20	3.60	0	0	0
\$210.....	\$220.....	30.10	26.50	22.90	19.30	15.70	12.20	8.60	5.00	1.40	0	0
\$220.....	\$230.....	31.50	27.90	24.30	20.70	17.10	13.60	10.00	6.40	2.80	0	0
\$230.....	\$240.....	32.90	29.30	25.70	22.10	18.50	15.00	11.40	7.80	4.20	.60	0
\$240.....	\$250.....	34.30	30.70	27.10	23.50	19.90	16.40	12.80	9.20	5.60	2.00	0
\$250.....	\$260.....	35.70	32.10	28.50	24.90	21.30	17.80	14.20	10.60	7.00	3.40	0
\$260.....	\$270.....	37.10	33.50	29.90	26.30	22.70	19.20	15.60	12.00	8.40	4.80	1.20
\$270.....	\$280.....	38.50	34.90	31.30	27.70	24.10	20.60	17.00	13.40	9.80	6.20	2.60
\$280.....	\$290.....	39.90	36.30	32.70	29.10	25.50	22.00	18.40	14.80	11.20	7.60	4.00
\$290.....	\$300.....	41.30	37.70	34.10	30.50	26.90	23.40	19.80	16.20	12.60	9.00	5.40
\$300.....	\$320.....	43.40	39.80	36.20	32.60	29.00	25.50	21.90	18.30	14.70	11.10	7.50
\$320.....	\$340.....	46.20	42.60	39.00	35.40	31.80	28.30	24.70	21.10	17.50	13.90	10.30
\$340.....	\$360.....	49.00	45.40	41.80	38.20	34.60	31.10	27.50	23.90	20.30	16.70	13.10
\$360.....	\$380.....	51.80	48.20	44.60	41.00	37.40	33.90	30.30	26.70	23.10	19.50	15.90
\$380.....	\$400.....	54.60	51.00	47.40	43.80	40.20	36.70	33.10	29.50	25.90	22.30	18.70
14 percent of the excess over \$400 plus—												
\$400 and over.....		56.00	52.40	48.80	45.20	41.60	38.10	34.50	30.90	27.30	23.70	20.10

“If the payroll period with respect to an employee is semimonthly—

And the wages are—		And the number of withholding exemptions claimed is—										
At least—	But less than—	0	1	2	3	4	5	6	7	8	9	10 or more
The amount of income tax to be withheld shall be—												
\$0.....	\$28.....	14% of wages	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
\$28.....	\$30.....	\$4.10	.20	0	0	0	0	0	0	0	0	0
\$30.....	\$32.....	4.30	.50	0	0	0	0	0	0	0	0	0
\$32.....	\$34.....	4.60	.70	0	0	0	0	0	0	0	0	0
\$34.....	\$36.....	4.90	1.00	0	0	0	0	0	0	0	0	0
\$36.....	\$38.....	5.20	1.30	0	0	0	0	0	0	0	0	0
\$38.....	\$40.....	5.50	1.60	0	0	0	0	0	0	0	0	0
\$40.....	\$42.....	5.70	1.90	0	0	0	0	0	0	0	0	0
\$42.....	\$44.....	6.00	2.10	0	0	0	0	0	0	0	0	0
\$44.....	\$46.....	6.30	2.40	0	0	0	0	0	0	0	0	0
\$46.....	\$48.....	6.60	2.70	0	0	0	0	0	0	0	0	0
\$48.....	\$50.....	6.90	3.00	0	0	0	0	0	0	0	0	0
\$50.....	\$52.....	7.10	3.30	0	0	0	0	0	0	0	0	0
\$52.....	\$54.....	7.40	3.50	0	0	0	0	0	0	0	0	0
\$54.....	\$56.....	7.70	3.80	0	0	0	0	0	0	0	0	0
\$56.....	\$58.....	8.00	4.10	.20	0	0	0	0	0	0	0	0
\$58.....	\$60.....	8.30	4.40	.50	0	0	0	0	0	0	0	0
\$60.....	\$62.....	8.50	4.70	.80	0	0	0	0	0	0	0	0
\$62.....	\$64.....	8.80	4.90	1.00	0	0	0	0	0	0	0	0
\$64.....	\$66.....	9.10	5.20	1.30	0	0	0	0	0	0	0	0
\$66.....	\$68.....	9.40	5.50	1.60	0	0	0	0	0	0	0	0
\$68.....	\$70.....	9.70	5.80	1.90	0	0	0	0	0	0	0	0
\$70.....	\$72.....	9.90	6.10	2.20	0	0	0	0	0	0	0	0
\$72.....	\$74.....	10.20	6.30	2.40	0	0	0	0	0	0	0	0
\$74.....	\$76.....	10.50	6.60	2.70	0	0	0	0	0	0	0	0
\$76.....	\$78.....	10.80	6.90	3.00	0	0	0	0	0	0	0	0
\$78.....	\$80.....	11.10	7.20	3.30	0	0	0	0	0	0	0	0
\$80.....	\$82.....	11.30	7.50	3.60	0	0	0	0	0	0	0	0
\$82.....	\$84.....	11.60	7.70	3.80	0	0	0	0	0	0	0	0
\$84.....	\$86.....	11.90	8.00	4.10	.20	0	0	0	0	0	0	0
\$86.....	\$88.....	12.20	8.30	4.40	.50	0	0	0	0	0	0	0
\$88.....	\$90.....	12.50	8.60	4.70	.80	0	0	0	0	0	0	0
\$90.....	\$92.....	12.70	8.90	5.00	1.10	0	0	0	0	0	0	0
\$92.....	\$94.....	13.00	9.10	5.20	1.40	0	0	0	0	0	0	0
\$94.....	\$96.....	13.30	9.40	5.50	1.60	0	0	0	0	0	0	0
\$96.....	\$98.....	13.60	9.70	5.80	1.90	0	0	0	0	0	0	0
\$98.....	\$100.....	13.90	10.00	6.10	2.20	0	0	0	0	0	0	0
\$100.....	\$102.....	14.10	10.30	6.40	2.50	0	0	0	0	0	0	0
\$102.....	\$104.....	14.40	10.50	6.60	2.80	0	0	0	0	0	0	0
\$104.....	\$106.....	14.70	10.80	6.90	3.00	0	0	0	0	0	0	0
\$106.....	\$108.....	15.00	11.10	7.20	3.30	0	0	0	0	0	0	0
\$108.....	\$110.....	15.30	11.40	7.50	3.60	0	0	0	0	0	0	0
\$110.....	\$112.....	15.50	11.70	7.80	3.90	0	0	0	0	0	0	0
\$112.....	\$114.....	15.80	11.90	8.00	4.20	.30	0	0	0	0	0	0
\$114.....	\$116.....	16.10	12.20	8.30	4.40	.50	0	0	0	0	0	0
\$116.....	\$118.....	16.40	12.50	8.60	4.70	.80	0	0	0	0	0	0
\$118.....	\$120.....	16.70	12.80	8.90	5.00	1.10	0	0	0	0	0	0
\$120.....	\$124.....	17.10	13.20	9.30	5.40	1.50	0	0	0	0	0	0
\$124.....	\$128.....	17.60	13.80	9.90	6.00	2.10	0	0	0	0	0	0
\$128.....	\$132.....	18.20	14.30	10.40	6.50	2.60	0	0	0	0	0	0
\$132.....	\$136.....	18.80	14.90	11.00	7.10	3.20	0	0	0	0	0	0
\$136.....	\$140.....	19.30	15.40	11.50	7.70	3.80	0	0	0	0	0	0
\$140.....	\$144.....	19.90	16.00	12.10	8.20	4.30	.40	0	0	0	0	0
\$144.....	\$148.....	20.40	16.60	12.70	8.80	4.90	1.00	0	0	0	0	0
\$148.....	\$152.....	21.00	17.10	13.20	9.30	5.40	1.60	0	0	0	0	0
\$152.....	\$156.....	21.60	17.70	13.80	9.90	6.00	2.10	0	0	0	0	0
\$156.....	\$160.....	22.10	18.20	14.30	10.50	6.60	2.70	0	0	0	0	0
\$160.....	\$164.....	22.70	18.80	14.90	11.00	7.10	3.20	0	0	0	0	0
\$164.....	\$168.....	23.20	19.40	15.50	11.60	7.70	3.80	0	0	0	0	0
\$168.....	\$172.....	23.80	19.90	16.00	12.10	8.20	4.40	.50	0	0	0	0
\$172.....	\$176.....	24.40	20.50	16.60	12.70	8.80	4.90	1.00	0	0	0	0
\$176.....	\$180.....	24.90	21.00	17.10	13.30	9.40	5.50	1.60	0	0	0	0
\$180.....	\$184.....	25.50	21.60	17.70	13.80	9.90	6.00	2.10	0	0	0	0
\$184.....	\$188.....	26.00	22.20	18.30	14.40	10.50	6.60	2.70	0	0	0	0
\$188.....	\$192.....	26.60	22.70	18.80	14.90	11.00	7.20	3.30	0	0	0	0
\$192.....	\$196.....	27.20	23.30	19.40	15.50	11.60	7.70	3.80	0	0	0	0
\$196.....	\$200.....	27.70	23.80	19.90	16.10	12.20	8.30	4.40	.50	0	0	0
\$200.....	\$210.....	28.70	24.80	20.90	17.00	13.10	9.30	5.40	1.50	0	0	0
\$210.....	\$220.....	30.10	26.20	22.30	18.40	14.50	10.70	6.80	2.90	0	0	0
\$220.....	\$230.....	31.50	27.60	23.70	19.80	15.90	12.10	8.20	4.30	.40	0	0
\$230.....	\$240.....	32.90	29.00	25.10	21.20	17.30	13.50	9.60	5.70	1.80	0	0
\$240.....	\$250.....	34.30	30.40	26.50	22.60	18.70	14.90	11.00	7.10	3.20	0	0
\$250.....	\$260.....	35.70	31.80	27.90	24.00	20.10	16.30	12.40	8.50	4.60	.70	0
\$260.....	\$270.....	37.10	33.20	29.30	25.40	21.50	17.70	13.80	9.90	6.00	2.10	0
\$270.....	\$280.....	38.50	34.60	30.70	26.80	22.90	19.10	15.20	11.30	7.40	3.50	0
\$280.....	\$290.....	39.90	36.00	32.10	28.20	24.30	20.50	16.60	12.70	8.80	4.90	1.00
\$290.....	\$300.....	41.30	37.40	33.50	29.60	25.70	21.90	18.00	14.10	10.20	6.30	2.40
\$300.....	\$320.....	43.40	39.50	35.60	31.70	27.80	24.00	20.10	16.20	12.30	8.40	4.50
\$320.....	\$340.....	46.20	42.30	38.40	34.50	30.60	26.80	22.90	19.00	15.10	11.20	7.30
\$340.....	\$360.....	49.00	45.10	41.20	37.30	33.40	29.60	25.70	21.80	17.90	14.00	10.10
\$360.....	\$380.....	51.80	47.90	44.00	40.10	36.20	32.40	28.50	24.60	20.70	16.90	12.90
\$380.....	\$400.....	54.60	50.70	46.80	42.90	39.00	35.20	31.30	27.40	23.50	19.80	15.70
\$400.....	\$420.....	57.40	53.50	49.60	45.70	41.80	38.00	34.10	30.20	26.30	22.40	18.50
\$420.....	\$440.....	60.20	56.30	52.40	48.50	44.60	40.80	36.90	33.00	29.10	25.20	21.30
\$440.....	\$460.....	63.00	59.10	55.20	51.30	47.40	43.60	39.70	35.80	31.90	28.00	24.10
\$460.....	\$480.....	65.80	61.90	58.00	54.10	50.20	46.40	42.50	38.60	34.70	30.80	26.90
\$480.....	\$500.....	68.60	64.70	60.80	56.90	53.00	49.20	45.30	41.40	37.50	33.60	29.70
14 percent of the excess over \$500 plus—												
\$500 and over.....		70.00	66.10	62.20	58.30	54.40	50.60	46.70	42.80	38.90	35.00	31.10

"If the payroll period with respect to an employee is monthly—

And the wages are—		And the number of withholding exemptions claimed is—										
At least—	But less than—	0	1	2	3	4	5	6	7	8	9	10 or more
The amount of income tax to be withheld shall be—												
\$0.....	\$56.....	14% of wages	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
\$56.....	\$60.....	\$8.10	.30	0	0	0	0	0	0	0	0	0
\$60.....	\$64.....	8.70	.90	0	0	0	0	0	0	0	0	0
\$64.....	\$68.....	9.20	1.50	0	0	0	0	0	0	0	0	0
\$68.....	\$72.....	9.80	2.00	0	0	0	0	0	0	0	0	0
\$72.....	\$76.....	10.40	2.60	0	0	0	0	0	0	0	0	0
\$76.....	\$80.....	10.90	3.10	0	0	0	0	0	0	0	0	0
\$80.....	\$84.....	11.50	3.70	0	0	0	0	0	0	0	0	0
\$84.....	\$88.....	12.00	4.30	0	0	0	0	0	0	0	0	0
\$88.....	\$92.....	12.60	4.80	0	0	0	0	0	0	0	0	0
\$92.....	\$96.....	13.20	5.40	0	0	0	0	0	0	0	0	0
\$96.....	\$100.....	13.70	5.90	0	0	0	0	0	0	0	0	0
\$100.....	\$104.....	14.30	6.50	0	0	0	0	0	0	0	0	0
\$104.....	\$108.....	14.80	7.10	0	0	0	0	0	0	0	0	0
\$108.....	\$112.....	15.40	7.60	0	0	0	0	0	0	0	0	0
\$112.....	\$116.....	16.00	8.20	.40	0	0	0	0	0	0	0	0
\$116.....	\$120.....	16.50	8.70	1.00	0	0	0	0	0	0	0	0
\$120.....	\$124.....	17.10	9.30	1.50	0	0	0	0	0	0	0	0
\$124.....	\$128.....	17.60	9.90	2.10	0	0	0	0	0	0	0	0
\$128.....	\$132.....	18.20	10.40	2.60	0	0	0	0	0	0	0	0
\$132.....	\$136.....	18.80	11.00	3.20	0	0	0	0	0	0	0	0
\$136.....	\$140.....	19.30	11.50	3.80	0	0	0	0	0	0	0	0
\$140.....	\$144.....	19.90	12.10	4.30	0	0	0	0	0	0	0	0
\$144.....	\$148.....	20.40	12.70	4.90	0	0	0	0	0	0	0	0
\$148.....	\$152.....	21.00	13.20	5.40	0	0	0	0	0	0	0	0
\$152.....	\$156.....	21.60	13.80	6.00	0	0	0	0	0	0	0	0
\$156.....	\$160.....	22.10	14.30	6.60	0	0	0	0	0	0	0	0
\$160.....	\$164.....	22.70	14.90	7.10	0	0	0	0	0	0	0	0
\$164.....	\$168.....	23.20	15.50	7.70	0	0	0	0	0	0	0	0
\$168.....	\$172.....	23.80	16.00	8.20	.50	0	0	0	0	0	0	0
\$172.....	\$176.....	24.40	16.60	8.80	1.00	0	0	0	0	0	0	0
\$176.....	\$180.....	24.90	17.10	9.40	1.60	0	0	0	0	0	0	0
\$180.....	\$184.....	25.50	17.70	9.90	2.10	0	0	0	0	0	0	0
\$184.....	\$188.....	26.00	18.30	10.50	2.70	0	0	0	0	0	0	0
\$188.....	\$192.....	26.60	18.80	11.00	3.30	0	0	0	0	0	0	0
\$192.....	\$196.....	27.20	19.40	11.60	3.80	0	0	0	0	0	0	0
\$196.....	\$200.....	27.70	19.90	12.20	4.40	0	0	0	0	0	0	0
\$200.....	\$204.....	28.30	20.50	12.70	4.90	0	0	0	0	0	0	0
\$204.....	\$208.....	28.80	21.10	13.30	5.50	0	0	0	0	0	0	0
\$208.....	\$212.....	29.40	21.60	13.80	6.10	0	0	0	0	0	0	0
\$212.....	\$216.....	30.00	22.20	14.40	6.60	0	0	0	0	0	0	0
\$216.....	\$220.....	30.50	22.70	15.00	7.20	0	0	0	0	0	0	0
\$220.....	\$224.....	31.10	23.30	15.50	7.70	0	0	0	0	0	0	0
\$224.....	\$228.....	31.60	23.90	16.10	8.30	.50	0	0	0	0	0	0
\$228.....	\$232.....	32.20	24.40	16.60	8.90	1.10	0	0	0	0	0	0
\$232.....	\$236.....	32.80	25.00	17.20	9.40	1.60	0	0	0	0	0	0
\$236.....	\$240.....	33.30	25.50	17.80	10.00	2.20	0	0	0	0	0	0
\$240.....	\$244.....	34.20	26.40	18.60	10.80	3.00	0	0	0	0	0	0
\$244.....	\$248.....	35.30	27.50	19.70	11.90	4.20	0	0	0	0	0	0
\$248.....	\$256.....	36.40	28.60	20.80	13.10	5.30	0	0	0	0	0	0
\$256.....	\$264.....	37.50	29.70	22.00	14.20	6.40	0	0	0	0	0	0
\$264.....	\$272.....	38.60	30.90	23.10	15.30	7.50	0	0	0	0	0	0
\$272.....	\$280.....	39.80	32.00	24.20	16.40	8.60	.90	0	0	0	0	0
\$280.....	\$288.....	40.90	33.10	25.30	17.50	9.80	2.00	0	0	0	0	0
\$288.....	\$296.....	42.00	34.20	26.40	18.70	10.90	3.10	0	0	0	0	0
\$296.....	\$304.....	43.10	35.30	27.60	19.80	12.00	4.20	0	0	0	0	0
\$304.....	\$312.....	44.20	36.50	28.70	20.90	13.10	5.40	0	0	0	0	0
\$312.....	\$320.....	45.40	37.60	29.80	22.00	14.20	6.50	0	0	0	0	0
\$320.....	\$328.....	46.50	38.70	30.90	23.10	15.40	7.60	0	0	0	0	0
\$328.....	\$336.....	47.60	39.80	32.00	24.30	16.50	8.70	.90	0	0	0	0
\$336.....	\$344.....	48.70	40.90	33.20	25.40	17.60	9.80	2.10	0	0	0	0
\$344.....	\$352.....	49.80	42.10	34.30	26.50	18.70	11.00	3.20	0	0	0	0
\$352.....	\$360.....	51.00	43.20	35.40	27.60	19.80	12.10	4.30	0	0	0	0
\$360.....	\$368.....	52.10	44.30	36.50	28.70	21.00	13.20	5.40	0	0	0	0
\$368.....	\$376.....	53.20	45.40	37.60	29.90	22.10	14.30	6.50	.0	0	0	0
\$376.....	\$384.....	54.30	46.50	38.80	31.00	23.20	15.40	7.70	0	0	0	0
\$384.....	\$392.....	55.40	47.70	39.90	32.10	24.30	16.60	8.80	1.00	0	0	0
\$392.....	\$400.....	57.40	49.60	41.80	34.10	26.30	18.50	10.70	3.00	0	0	0
\$400.....	\$420.....	60.20	52.40	44.60	36.90	29.10	21.30	13.50	5.80	0	0	0
\$420.....	\$440.....	63.00	55.20	47.40	39.70	31.90	24.10	16.30	8.60	.80	0	0
\$440.....	\$460.....	65.80	58.00	50.20	42.50	34.70	26.90	19.10	11.40	3.60	0	0
\$460.....	\$480.....	68.60	60.80	53.00	45.30	37.50	29.70	21.90	14.20	6.40	0	0
\$480.....	\$500.....	71.40	63.60	55.80	48.10	40.30	32.50	24.70	17.00	9.20	1.40	0
\$500.....	\$520.....	74.20	66.40	58.60	50.90	43.10	35.30	27.50	19.80	12.00	4.20	0
\$520.....	\$540.....	77.00	69.20	61.40	53.70	45.90	38.10	30.30	22.60	14.80	7.00	0
\$540.....	\$560.....	79.80	72.00	64.20	56.50	48.70	40.90	33.10	25.40	17.60	9.80	2.00
\$560.....	\$580.....	82.60	74.80	67.00	59.30	51.50	43.70	35.90	28.20	20.40	12.60	4.80
\$580.....	\$600.....	86.80	79.00	71.20	63.50	55.70	47.90	40.10	32.40	24.60	16.80	9.00
\$600.....	\$640.....	92.40	84.60	76.80	69.10	61.30	53.50	45.70	38.00	30.20	22.40	14.60
\$640.....	\$680.....	98.00	90.20	82.40	74.70	66.90	59.10	51.30	43.60	35.80	28.00	20.20
\$680.....	\$720.....	103.60	95.80	88.00	80.30	72.50	64.70	56.90	49.20	41.40	33.60	25.80
\$720.....	\$760.....	109.20	101.40	93.60	85.90	78.10	70.30	62.50	54.80	47.00	39.20	31.40
\$760.....	\$800.....	114.80	107.00	99.20	91.50	83.70	75.90	68.10	60.40	52.60	44.80	37.00
\$800.....	\$840.....	120.40	112.60	104.80	97.10	89.30	81.50	73.70	66.00	58.20	50.40	42.60
\$840.....	\$880.....	126.00	118.20	110.40	102.70	94.90	87.10	79.30	71.60	63.80	56.00	48.20
\$880.....	\$920.....	131.60	123.80	116.00	108.30	100.50	92.70	84.90	77.20	69.40	61.60	53.80
\$920.....	\$960.....	137.20	129.40	121.60	113.90	106.10	98.30	90.50	82.80	75.00	67.20	59.40
\$960.....	\$1,000.....											
14 percent of the excess over \$1,000 plus—												
\$1,000 and over.....		140.00	132.20	124.40	116.70	108.90	101.10	93.30	85.60	77.80	70.00	62.20

"If the payroll period with respect to an employee is a daily payroll period or a miscellaneous payroll period—

And the wages divided by the number of days in such period are—		And the number of withholding exemptions claimed is—										
		0	1	2	3	4	5	6	7	8	9	10 or more
At least—	But less than—	The amount of tax to be withheld shall be the following amount multiplied by the number of days in such period—										
\$0.....	\$2.00.....	14% of wages	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
\$2.00.....	\$2.25.....	.30	.05	0	0	0	0	0	0	0	0	0
\$2.25.....	\$2.50.....	.35	.10	0	0	0	0	0	0	0	0	0
\$2.50.....	\$2.75.....	.35	.10	0	0	0	0	0	0	0	0	0
\$2.75.....	\$3.00.....	.40	.15	0	0	0	0	0	0	0	0	0
\$3.00.....	\$3.25.....	.45	.20	0	0	0	0	0	0	0	0	0
\$3.25.....	\$3.50.....	.45	.20	0	0	0	0	0	0	0	0	0
\$3.50.....	\$3.75.....	.50	.25	0	0	0	0	0	0	0	0	0
\$3.75.....	\$4.00.....	.55	.30	.05	0	0	0	0	0	0	0	0
\$4.00.....	\$4.25.....	.60	.30	.05	0	0	0	0	0	0	0	0
\$4.25.....	\$4.50.....	.60	.35	.10	0	0	0	0	0	0	0	0
\$4.50.....	\$4.75.....	.65	.40	.15	0	0	0	0	0	0	0	0
\$4.75.....	\$5.00.....	.70	.45	.15	0	0	0	0	0	0	0	0
\$5.00.....	\$5.25.....	.70	.45	.20	0	0	0	0	0	0	0	0
\$5.25.....	\$5.50.....	.75	.50	.25	0	0	0	0	0	0	0	0
\$5.50.....	\$5.75.....	.80	.55	.30	0	0	0	0	0	0	0	0
\$5.75.....	\$6.00.....	.80	.55	.30	.05	0	0	0	0	0	0	0
\$6.00.....	\$6.25.....	.85	.60	.35	.10	0	0	0	0	0	0	0
\$6.25.....	\$6.50.....	.90	.65	.40	.15	0	0	0	0	0	0	0
\$6.50.....	\$6.75.....	.95	.65	.40	.15	0	0	0	0	0	0	0
\$6.75.....	\$7.00.....	.95	.70	.45	.20	0	0	0	0	0	0	0
\$7.00.....	\$7.25.....	1.00	.75	.50	.25	0	0	0	0	0	0	0
\$7.25.....	\$7.50.....	1.05	.80	.50	.25	0	0	0	0	0	0	0
\$7.50.....	\$7.75.....	1.05	.80	.55	.30	.05	0	0	0	0	0	0
\$7.75.....	\$8.00.....	1.10	.85	.60	.35	.10	0	0	0	0	0	0
\$8.00.....	\$8.25.....	1.15	.90	.65	.35	.10	0	0	0	0	0	0
\$8.25.....	\$8.50.....	1.15	.90	.65	.40	.15	0	0	0	0	0	0
\$8.50.....	\$8.75.....	1.20	.95	.70	.45	.20	0	0	0	0	0	0
\$8.75.....	\$9.00.....	1.25	1.00	.75	.50	.20	0	0	0	0	0	0
\$9.00.....	\$9.25.....	1.30	1.00	.75	.50	.25	0	0	0	0	0	0
\$9.25.....	\$9.50.....	1.30	1.05	.80	.55	.30	.05	0	0	0	0	0
\$9.50.....	\$9.75.....	1.35	1.10	.85	.60	.30	.05	0	0	0	0	0
\$9.75.....	\$10.00.....	1.40	1.15	.85	.60	.35	.10	0	0	0	0	0
\$10.00.....	\$10.50.....	1.45	1.20	.90	.65	.40	.15	0	0	0	0	0
\$10.50.....	\$11.00.....	1.50	1.25	1.00	.75	.50	.25	0	0	0	0	0
\$11.00.....	\$11.50.....	1.60	1.30	1.05	.80	.55	.30	.05	0	0	0	0
\$11.50.....	\$12.00.....	1.65	1.40	1.15	.90	.60	.35	.10	0	0	0	0
\$12.00.....	\$12.50.....	1.70	1.45	1.20	.95	.70	.45	.20	0	0	0	0
\$12.50.....	\$13.00.....	1.80	1.55	1.25	1.00	.75	.50	.25	0	0	0	0
\$13.00.....	\$13.50.....	1.85	1.60	1.35	1.10	.85	.60	.30	.05	0	0	0
\$13.50.....	\$14.00.....	1.95	1.65	1.40	1.15	.90	.65	.40	.15	0	0	0
\$14.00.....	\$14.50.....	2.00	1.75	1.50	1.25	.95	.70	.45	.20	0	0	0
\$14.50.....	\$15.00.....	2.05	1.80	1.55	1.30	1.05	.80	.55	.30	0	0	0
\$15.00.....	\$15.50.....	2.15	1.90	1.60	1.35	1.10	.85	.60	.35	.10	0	0
\$15.50.....	\$16.00.....	2.20	1.95	1.70	1.45	1.20	.95	.65	.40	.15	0	0
\$16.00.....	\$16.50.....	2.30	2.00	1.75	1.50	1.25	1.00	.75	.60	.25	0	0
\$16.50.....	\$17.00.....	2.35	2.10	1.85	1.60	1.30	1.05	.80	.55	.30	.05	0
\$17.00.....	\$17.50.....	2.40	2.15	1.90	1.65	1.40	1.15	.90	.65	.35	.10	0
\$17.50.....	\$18.00.....	2.50	2.25	1.95	1.70	1.45	1.20	.95	.70	.45	.20	0
\$18.00.....	\$18.50.....	2.55	2.30	2.05	1.80	1.55	1.30	1.00	.75	.50	.25	0
\$18.50.....	\$19.00.....	2.65	2.35	2.10	1.85	1.60	1.35	1.10	.85	.60	.30	.05
\$19.00.....	\$19.50.....	2.70	2.45	2.20	1.95	1.65	1.40	1.15	.90	.65	.40	.15
\$19.50.....	\$20.00.....	2.75	2.50	2.25	2.00	1.75	1.50	1.25	1.00	.70	.45	.20
\$20.00.....	\$21.00.....	2.85	2.60	2.35	2.10	1.85	1.60	1.35	1.10	.80	.55	.30
\$21.00.....	\$22.00.....	3.00	2.75	2.50	2.25	2.00	1.75	1.50	1.20	.95	.70	.45
\$22.00.....	\$23.00.....	3.15	2.90	2.65	2.40	2.15	1.85	1.60	1.35	1.10	.85	.60
\$23.00.....	\$24.00.....	3.30	3.05	2.80	2.50	2.25	2.00	1.75	1.50	1.25	1.00	.75
\$24.00.....	\$25.00.....	3.45	3.15	2.90	2.65	2.40	2.15	1.90	1.65	1.40	1.15	.85
\$25.00.....	\$26.00.....	3.55	3.30	3.05	2.80	2.55	2.30	2.05	1.80	1.50	1.25	1.00
\$26.00.....	\$27.00.....	3.70	3.45	3.20	2.95	2.70	2.45	2.20	1.90	1.65	1.40	1.15
\$27.00.....	\$28.00.....	3.85	3.60	3.35	3.10	2.85	2.55	2.30	2.05	1.80	1.55	1.30
\$28.00.....	\$29.00.....	4.00	3.75	3.50	3.20	2.95	2.70	2.45	2.20	1.95	1.70	1.45
\$29.00.....	\$30.00.....	4.15	3.85	3.60	3.35	3.10	2.85	2.60	2.35	2.10	1.85	1.55
		14 percent of the excess over \$30 plus—										
\$30 and over.....		4.20	3.95	3.70	3.45	3.20	2.90	2.65	2.40	2.15	1.90	1.65"

1 ~~(206)(e)~~ *WITHHOLDING OF TAX ON CERTAIN NONRES-*
 2 *DENT ALIENS.—*

3 ~~(1)~~ Section 1441(a) ~~(relating to general rule)~~ is
 4 amended by striking out “the tax shall be equal to 18
 5 percent of such item.” and inserting in lieu thereof:

6 “the tax shall be equal to—

7 ~~“(1)~~ 15 percent in the case of payments made dur-
 8 ing the calendar year 1964, and

9 ~~“(2)~~ 14 percent in the case of payments made after
 10 December 31, 1964.”

11 ~~(2)~~ Section 1441(b) ~~(relating to income items)~~
 12 is amended by striking out “18 percent” and by insert-
 13 ing in lieu thereof “15 percent or 14 percent (as the
 14 case may be)”.
 15

16 (c) *WITHHOLDING OF TAX ON CERTAIN NON-*
 17 *RESIDENT ALIENS.—Subsections (a) and (b) of section*
 18 *1441 (relating to withholding of tax on nonresident aliens)*
 19 *are amended by striking out “18 percent” and inserting in*
 20 *lieu thereof “14 percent.”*

21 (d) *EFFECTIVE DATES.—The amendments made by sub-*
 sections (a) and (b) of this section shall apply with re-

1 spect to remuneration paid after ~~(207)December 31, 1963~~
 2 *the seventh day following the date of the enactment of this Act.*
 3 The amendment made by subsection (c) of this section shall
 4 apply with respect to payments made after ~~(208)December~~
 5 ~~31, 1963~~ *the seventh day following the date of enactment of*
 6 *this Act.*

Passed the House of Representatives September 25, 1963.

Attest:

RALPH R. ROBERTS,

Clerk.

Passed the Senate with amendments February 7, 1964.

Attest:

FELTON M. JOHNSTON,

Secretary.

TABLE OF CONTENTS

Section 1. Short title, etc.-----	Page 2
TITLE I—REDUCTION OF INCOME TAX RATES AND RELATED AMENDMENTS	
PART I—INDIVIDUALS	
Sec. 111. Reduction of tax on individuals.	
(a) Individuals other than heads of households-----	2
(b) Heads of households-----	5
Sec. 112. Minimum standard deduction.	
(a) General rule-----	8
(b) Amendment of section 2-----	10
(c) Amendments of section 144-----	10
(d) Conforming amendments-----	11
Sec. 113. Related amendments.	
(a) Retirement income credit-----	11
(b) Tax on nonresident alien individuals-----	12
Sec. 114. Cross references to tax tables, etc.-----	12
PART II—CORPORATIONS	
Sec. 121. Reduction of tax on corporations-----	12
Sec. 122. Current tax payments by corporations.	
(a) Installment payments of estimated income tax by corporations-----	14
(b) Time for filing declarations of estimated income tax by corporations-----	19
(c) Failure by corporations to pay estimated income tax-----	21
(d) Technical amendment-----	22
Sec. 123. Related amendments.	
(a) Tax on mutual insurance companies (other than life, etc.)-----	22
(b) Receipt of minimum distributions by domestic corporations---	24
(c) Amendment of section 242-----	25
PART III—EFFECTIVE DATES	
Sec. 131. General rule-----	26
Sec. 132. Fiscal year taxpayers-----	26
TITLE II—STRUCTURAL CHANGES	
Sec. 201. Dividends received by individuals.	
(a) Reduction of 4 percent credit to 2 percent credit for calendar year 1964-----	28
(b) Repeal of credit for dividends received by individuals-----	29
(c) Doubling of amount of partial exclusion from gross income of dividends received by individuals-----	29
(d) Conforming amendments-----	29
(e) Effective dates-----	31

TABLE OF CONTENTS—Continued

TITLE II—STRUCTURAL CHANGES—Continued

Sec. 202. Limitation on retirement income.	Page
(a) Increase in limitation in case of certain married couples-----	32
(b) Effective date-----	33
Sec. 203. Repeal of requirement that basis of section 38 property be reduced by 7 percent; other provisions relating to investment credit.	
(a) Repeal of requirement that basis be reduced-----	33
(b) Basis of certain leased property to lessee-----	36
(c) Treatment of elevators and escalators for purposes of the investment credit-----	36
(d) Treatment of elevators and escalators for purposes of section 1245-----	37
(e) Treatment of investment credit by Federal regulatory agencies--	38
(f) Effective dates-----	39
Sec. 204. Group-term life insurance purchased for employees.	
(a) Inclusion in income-----	40
(b) Withholding-----	44
(c) Information reporting-----	45
(d) Effective dates-----	47
Sec. 205. Amounts received under wage continuation plans.	
(a) Wage continuation plans-----	49
(b) Effective date-----	50
Sec. 206. Exclusion from gross income of gain on sale or exchange of residence of individual who has attained age 65.	
(a) In general-----	50
(b) Technical and clerical amendments-----	55
(c) Effective date-----	56
Sec. 207. Denial of deduction for certain State, local, and foreign taxes.	
(a) In general-----	56
(b) Technical amendments-----	60
(c) Effective date-----	63
Sec. 208. Personal casualty and theft losses.	
(a) Limitation on amount of casualty or theft loss deduction-----	63
(b) Effective date-----	64
Sec. 209. Charitable, etc., contributions and gifts.	
(a) Certain organizations added to additional 10-percent charitable limitation-----	64
(b) Limitation of unlimited charitable contribution deduction-----	65
(c) 5-year carryover of certain charitable contributions made by individuals-----	67
(d) 5-year carryover of certain charitable contributions made by corporations-----	69
(e) Future interests in tangible personal property-----	71
(f) Effective dates-----	72

TABLE OF CONTENTS—Continued

TITLE II—STRUCTURAL CHANGES—Continued

Sec. 210. Losses arising from expropriation of property by governments of foreign countries.	Page
(a) Net operating loss carryover-----	73
(b) Technical amendments-----	76
(c) Effective date-----	77
Sec. 211. One-percent limitation on medicine and drugs.	
(a) General rule-----	78
(b) Effective date-----	78
Sec. 212. Care of dependents.	
(a) Child care allowance-----	78
(b) Effective date-----	83
Sec. 213. Moving expenses.	
(a) Deduction allowed for moving expenses-----	84
(b) Adjusted gross income-----	87
(c) Withholding-----	87
(d) Effective dates-----	87
Sec. 214. Deduction for political contributions.	
(a) Allowance of deduction-----	88
(b) Technical amendment-----	89
(c) Effective date-----	89
Sec. 215. 100 percent dividends received deduction for members of electing affiliated groups.	
(a) 100 percent dividends received deduction-----	90
(b) Technical amendments-----	97
(c) Effective date-----	98
Sec. 216. Interest on loans incurred to purchase certain insurance and annuity contracts.	
(a) Disallowance of interest deduction-----	99
(b) Exceptions-----	100
(c) Effective date-----	101
Sec. 217. Interest on indebtedness incurred or continued to purchase or carry tax-exempt bonds.	
(a) Application with respect to certain financial institutions-----	101
(b) Effective date-----	102
Sec. 218. Repeal of requirement of allocation of certain traveling expenses.	
(a) Repeal of section 274(c)-----	102
(b) Effective date-----	102
Sec. 219. Acquisition of stock in exchange for stock of corporation which is in control of acquiring corporation.	
(a) Definition of reorganization-----	102
(b) Technical amendments-----	103
(c) Effective date-----	104
Sec. 220. Retroactive qualification of certain union-negotiated multi-employer pension plans.	
(a) Beginning of period as qualified trust-----	104
(b) Effective date-----	105

TABLE OF CONTENTS—Continued

TITLE II—STRUCTURAL CHANGES—Continued

Sec. 221. Qualified pension, etc., plan coverage for employees of certain subsidiary employers.	
(a) Employees of foreign subsidiaries covered by social security agreements.....	Page 106
(b) Employees of domestic subsidiaries engaged in business outside the United States.....	111
(c) Technical amendments.....	118
(d) Effective date.....	119
Sec. 222. Employee stock options and purchase plans.	
(a) In general.....	120
“Sec. 421. General rules.	
(a) Effect of qualifying transfer.....	120
(b) Effect of disqualifying disposition.....	121
(c) Exercise by estate.....	121
“Sec. 422. Qualified stock options.	
(a) In general.....	123
(b) Qualified stock option.....	124
(c) Special rules.....	126
“Sec. 423. Employee stock purchase plans.	
(a) General rule.....	130
(b) Employee stock purchase plan.....	131
(c) Special rule where option price is between 85 percent and 100 percent of value of stock.....	135
“Sec. 424. Restricted stock options.	
(a) In general.....	136
(b) Restricted stock option.....	137
(c) Special rules.....	139
“Sec. 425. Definitions and special rules.	
(a) Corporate reorganizations, liquidations, etc.....	142
(b) Acquisition of new stock.....	143
(c) Disposition.....	143
(d) Attribution of stock ownership.....	144
(e) Parent corporation.....	145
(f) Subsidiary corporation.....	145
(g) Special rule for applying subsections (e) and (f).....	145
(h) Modification, extension, or renewal of option.....	146
(i) Stockholder approval.....	148
(j) Cross references.....	148
(b) Administrative provisions.....	149
(1) Reporting requirement for certain options.....	149
(2) Penalties for failure to file information returns.....	151
(3) Penalties for failure to furnish statements to persons with respect to whom returns are filed.....	153
(c) Technical amendments.....	154
(d) Clerical amendments.....	154
(e) Effective dates and transition rules.....	155

TABLE OF CONTENTS—Continued

TITLE II—STRUCTURAL CHANGES—Continued

Sec. 223. Installment sales by dealers in personal property.	Page
(a) Installment plans.....	156
(b) Effective date.....	157
Sec. 224. Timing of deductions and credits in certain cases where as- serted liabilities are contested.	
(a) Taxable year of deduction or credit.....	158
(b) Effective dates.....	159
(c) Election as to transfers in taxable years beginning before Janu- ary 1, 1964.....	159
(d) Certain other transfers in taxable years beginning before Janu- ary 1, 1964.....	161
Sec. 225. Interest on certain deferred payments.	
(a) In general.....	162
(b) Clerical amendment.....	166
(c) Effective date.....	166
Sec. 226. Personal holding companies.	
(a) Personal holding company tax rate.....	167
(b) Definition of personal holding company.....	167
(c) Excluded corporations.....	167
(d) Personal holding company income.....	173
(e) Foreign personal holding company income and stock owner- ship.....	183
(f) Dividends-paid deduction.....	190
(g) One-month liquidations.....	194
(h) Exception for certain corporations.....	198
(i) Deduction for amortization of indebtedness.....	199
(j) Technical amendments.....	210
(k) Effective dates.....	213
Sec. 227. Treatment of property in case of oil and gas wells.	
(a) In general.....	214
(b) Technical amendments.....	218
(c) Allocation of basis in certain cases.....	219
(d) Effective date.....	221
Sec. 228. Treatment of certain iron ore royalties.	
(a) In general.....	222
(b) Clerical amendments.....	223
(c) Effective date.....	225
Sec. 229. Insurance companies.	
(a) Certain mutualization distributions made in 1962.....	225
(b) Accrual of bond discount.....	225
(c) Contributions to qualified, etc., plans.....	226
(d) Effective dates.....	226
Sec. 230. Regulated investment companies.	
(a) Time for mailing certain notices to shareholders.....	227
(b) Certain redemptions by unit investment trusts.....	227
(c) Effective dates.....	228

TABLE OF CONTENTS—Continued

TITLE II—STRUCTURAL CHANGES—Continued

Sec. 231. Foreign tax credit with respect to certain foreign mineral income.	
(a) Limitation on amount of foreign taxes to be taken into account.	Page 228
(b) Effective date.	231
Sec. 232. Amounts received from employer on sale of residence of employee in connection with transfer to new place of work.	
(a) Treatment of certain amounts received from employer on sale of residence of employee in connection with transfer to new place of work.	231
(b) Effective date.	236
Sec. 233. Gain from dispositions of certain depreciable realty.	
(a) Gain from dispositions of certain depreciable realty.	275
"Sec. 1250. Gain from dispositions of certain depreciable realty.	
(a) General rule.	275
(b) Additional depreciation defined.	276
(c) Section 1250 property.	278
(d) Exceptions and limitations.	278
(e) Holding period.	283
(f) Special rules for property which is substantially improved.	284
(g) Adjustments to basis.	287
(h) Application of section.	288
(b) Technical amendments.	288
(c) Effective date.	290
Sec. 234. Averaging.	
(a) General rule.	290
"Sec. 1301. Limitation on tax.	290
"Sec. 1302. Definition of averagable income; related definitions.	
(a) Averagable income.	291
(b) Adjusted taxable income.	291
(c) Average base period income.	293
(d) Capital gain net income, etc.	295
(e) Other related definitions.	296
"Sec. 1303. Eligible individuals.	
(a) General rule.	296
(b) Nonresident alien individuals.	296
(c) Individuals receiving support from others.	297
(d) Student defined.	298
"Sec. 1304. Special rules.	
(a) Taxpayer must choose benefits.	298
(b) Certain provisions inapplicable.	299
(c) Failure of certain married individuals to make joint return, etc.	299

TABLE OF CONTENTS—Continued

TITLE II—STRUCTURAL CHANGES—Continued

“Sec. 1304. Special rules.—Continued	Page
(d) Dollar limitations in case of joint returns-----	301
(e) Special rules where there are capital gains-----	302
(f) Treatment of certain other items-----	303
(g) Short taxable years-----	304
“Sec. 1305. Regulations-----	304
(b) Repeal of section 72(e)(3)-----	304
(c) Amendment of section 144-----	304
(d) Statute of limitations-----	305
(e) Technical amendments-----	307
(f) Clerical amendments-----	308
(g) Effective date-----	308
Sec. 235. Small business corporations.	
(a) Ownership of certain stock disregarded-----	310
(b) Certain distributions of money after close of taxable year-----	310
(c) Effective dates-----	312
Sec. 236. Repeal of additional 2-percent tax for corporations filing consolidated returns.	
(a) Repeal of tax-----	312
(b) Technical and conforming amendments-----	313
(c) Effective date-----	320
Sec. 237. Reduction of surtax exemption in case of certain controlled corporations, etc.	
(a) In general-----	321
“Sec. 1561. Surtax exemptions in case of certain controlled corporations.	
(a) General rule-----	321
(b) Certain short taxable years-----	322
“Sec. 1562. Privilege of groups to elect multiple surtax exemptions.	
(a) Election of multiple surtax exemptions-----	322
(b) Additional tax imposed-----	324
(c) Termination of election-----	326
(d) Election after termination-----	328
(e) Manner and time of giving consent and making election, etc.-----	328
(f) Special rules-----	329
(g) Tolling of statute of limitations-----	331
“Sec. 1563. Definitions and special rules.	
(a) Controlled group of corporations-----	332
(b) Component member-----	334
(c) Certain stock excluded-----	336
(d) Rules for determining stock ownership-----	339
(e) Constructive ownership-----	340
(f) Other definitions and rules-----	344

TABLE OF CONTENTS—Continued

TITLE II—STRUCTURAL CHANGES—Continued

Sec. 237. Reduction of surtax, etc.—Continued	Page
(b) Disallowance of surtax exemption and accumulated earnings credit.....	348
(c) Technical amendments.....	350
(d) Effective date.....	352
Sec. 238. Validity of tax liens against mortgagees, pledgees, and purchasers of motor vehicles.	
(a) Mortgagees, pledgees, and purchasers without actual notice or knowledge of lien.....	353
(b) Liens for estate and gift taxes.....	354
(c) Effective date.....	355

TITLE III—OPTIONAL TAX ON INDIVIDUALS; COLLECTION OF INCOME
TAX AT SOURCE ON WAGES

Sec. 301. Optional tax if adjusted gross income is less than \$5,000.	
(a) Optional tax.....	365
(b) Rules for optional tax.....	376
(c) Effective date.....	378
Sec. 302. Income tax collected at source.	
(a) Percentage method of withholding.....	379
(b) Wage bracket withholding.....	385
(c) Withholding of tax on certain nonresident aliens.....	391
(d) Effective dates.....	391

SECTION 20
SENATE AMENDMENTS NUMBERED

3947

In the Senate of the United States,

February 7, 1964.

Resolved, That the bill from the House of Representatives (H.R. 8363) entitled “An Act to amend the Internal Revenue Code of 1954 to reduce individual and corporate income taxes, to make certain structural changes with respect to the income tax, and for other purposes”, do pass with the following

AMENDMENTS:

- 1 **(1)**Page 1, strike out all after line 2 over to and including
2 line 4 on page 2.
- 3 **(2)**Page 2, line 5, strike out **[SEC. 2.]** and insert: **SECTION**
4 **1.**
- 5 **(3)**Page 2, line 7, strike out **[1963]** and insert: *1964*
- 6 **(4)**Page 11, line 21, strike out **[equal to 15 percent]**
7 and insert: *equal to 17 percent, in the case of a taxable*
8 *year beginning in 1964, or 15 percent, in the case of a*
9 *taxable year beginning after December 31, 1964,*
- 10 **(5)**Page 14, strike out lines 8 and 9 and insert: *, except*
11 *that, with respect to a corporation to which section 1561*



1 *(relating to surtax exemptions in case of certain controlled*
 2 *corporations) applies for the taxable year, the surtax exemp-*
 3 *tion for the taxable year is the amount determined under such*
 4 *section.*

5 **(6)**Page 26, line 13, strike out **[1963]** and insert: *1964*

6 **(7)**Page 26, line 21, strike out **[1963]** and insert: *1964*

7 **(8)**Page 32, after line 4, insert:

8 **SEC. 202. LIMITATION ON RETIREMENT INCOME.**

9 *(a) INCREASE IN LIMITATION IN CASE OF CERTAIN*
 10 *MARRIED COUPLES.—Section 37 (relating to retirement in-*
 11 *come) is amended by redesignating subsection (i) as sub-*
 12 *section (j) and inserting after subsection (h) the following*
 13 *new subsection:*

14 *“(i) EXCEPTIONS TO LIMITATION ON AMOUNT OF RE-*
 15 *TIREMENT INCOME IN CASE OF CERTAIN JOINT RE-*
 16 *URNS.—In the case of a joint return of a husband and wife*
 17 *both of whom have attained the age of 65 before the close*
 18 *of the taxable year—*

19 *“(1) BOTH SPOUSES HAVE RECEIVED EARNED*
 20 *INCOME.—If both spouses are individuals who have re-*
 21 *ceived earned income before the beginning of the tax-*
 22 *able year (within the meaning of subsection (b)) and if*
 23 *the sum of the retirement income and the amounts de-*
 24 *scribed in paragraphs (1) and (2) of subsection (d)*
 25 *received by either spouse during the taxable year is less*

1 than \$762, the \$1,524 amount referred to in subsection
 2 (d) shall, with respect to the other spouse, be increased
 3 by an amount equal to the amount by which such sum is
 4 less than \$762.

5 “(2) ONE SPOUSE HAS NOT RECEIVED EARNED
 6 INCOME.—If either spouse is an individual who has not
 7 received earned income before the beginning of the taxable
 8 year (within the meaning of subsection (b)), the \$1,524
 9 amount referred to in subsection (d) shall, with respect
 10 to the other spouse, be increased by \$762, minus the sum
 11 of the amounts described in paragraphs (1) and (2) of
 12 subsection (d) received by his spouse.”

13 (b) EFFECTIVE DATE.—The amendments made by sub-
 14 section (a) shall apply to taxable years beginning after
 15 December 31, 1963.

16 (9)Page 32, line 5, strike out [202] and insert: 203

17 (10)Page 32, line 16, strike out [JULY 1, 1963] and insert:
 18 JANUARY 1, 1964

19 (11)Page 32, lines 19 and 20, strike out [July 1, 1963]
 20 and insert: January 1, 1964

21 (12)Page 33, line 7, strike out [July 1, 1963—] and insert:
 22 January 1, 1964—

23 (13)Page 33, line 20, strike out [June 30, 1963] and
 24 insert: December 31, 1963

25 (14)Page 34, line 5, strike out [202] and insert: 203

1 (15)Page 34, line 5, strike out **[1963]** and insert: *1964*

2 (16)Page 34, line 14, strike out **[June 30, 1963]** and in-
3 sert: *December 31, 1963*

4 (17)Page 34, line 17, strike out **[July 1, 1963]** and insert:
5 *January 1, 1964*

6 (18)Page 34, line 18, strike out **[June 30, 1963]** and
7 insert: *December 31, 1963*

8 (19)Page 38, line 12, strike out **[203]** and insert: *204*

9 (20)Page 39, strike out lines 4 and 5 and insert:

10 “(1) the cost of \$70,000 of such insurance, and

11 (21)Page 40, strike out all after line 7 over to and including
12 line 11 on page 41 and insert:

13 “(c) *DETERMINATION OF COST OF INSURANCE.—For*
14 *purposes of this section and section 6052, the cost of group-*
15 *term insurance on the life of an employee provided during any*
16 *period shall be determined on the basis of uniform premiums*
17 *(computed on the basis of 5-year age brackets) prescribed by*
18 *regulations by the Secretary or his delegate. In the case of*
19 *an employee who has attained age 64, the cost prescribed*
20 *shall not exceed the cost with respect to such individual if he*
21 *were age 63.”*

22 (22)Page 41, line 19, strike out **[sections 79 and 218]** and
23 insert: *section 79*

24 (23)Page 41, strike out all after line 21 over to and includ-
25 ing line 23 on page 42.

1 (24)Page 43, line 1, strike out [(c)] and insert: (b)

2 (25)Page 43, line 7, strike out all after “employee” down
3 to and including “insurance” in line 14.

4 (26)Page 43, after line 15, insert:

5 (c) *INFORMATION REPORTING.*—

6 (1) *REQUIREMENT.*—Subpart C of part III of
7 subchapter A of chapter 61 (relating to information and
8 returns) is amended by adding at the end thereof the
9 following new section:

10 “SEC. 6052. RETURNS REGARDING PAYMENT OF WAGES
11 IN THE FORM OF GROUP-TERM LIFE IN-
12 SURANCE.

13 “(a) *REQUIREMENT OF REPORTING.*—Every em-
14 ployer who during any calendar year provides group-term
15 life insurance on the life of an employee during part or all
16 of such calendar year under a policy (or policies) carried
17 directly or indirectly by such employer shall make a return
18 according to the forms or regulations prescribed by the Sec-
19 retary or his delegate, setting forth the cost of such insur-
20 ance and the name and address of the employee on whose
21 life such insurance is provided, but only to the extent that
22 the cost of such insurance is includible in the employee’s gross
23 income under section 79(a). For purposes of this section,
24 the extent to which the cost of group-term life insurance is
25 includible in the employee’s gross income under section 79

1 (a) shall be determined as if the employer were the only
 2 employer paying such employee remuneration in the form of
 3 such insurance.

4 “(b) STATEMENTS TO BE FURNISHED TO EMPLOYEES
 5 WITH RESPECT TO WHOM INFORMATION IS FURNISHED.—
 6 Every employer making a return under subsection (a) shall
 7 furnish to each employee whose name is set forth in such
 8 return a written statement showing the cost of the group-
 9 term life insurance shown on such return. The written
 10 statement required under the preceding sentence shall be fur-
 11 nished to the employee on or before January 31 of the year
 12 following the calendar year for which the return under sub-
 13 section (a) was made.”

14 (2) PENALTIES FOR FAILURE TO FURNISH STATE-
 15 MENTS TO PERSONS WITH RESPECT TO WHOM RETURNS
 16 ARE FILED.—Section 6678 (relating to failure to fur-
 17 nish certain statements) is amended—

18 (A) by striking out “or 6049(c)” and insert-
 19 ing in lieu thereof “6049(c), or 6052(b)” ; and

20 (B) by striking out “or 6049(a)(1),” and
 21 inserting in lieu thereof “6049(a)(1), or 6052
 22 (a),”.

23 (3) CLERICAL AMENDMENT.—The table of sections

1 for subpart C of part III of subchapter A of chapter 61
 2 is amended by adding at the end thereof the following:

*“Sec. 6052. Returns regarding payment of wages in the form
 of group-term life insurance.”*

3 (4) *CROSS REFERENCE.—*

*For penalty for failure to file information returns re-
 quired by section 6052(a) of the Internal Revenue Code
 of 1954 (added by paragraph (1) of this subsection), see
 section 6652(a)(3) of such Code (as amended by section
 222(b)(2) of this Act).*

4 (27)Page 43, line 17, strike out **[(b)]** and insert: (c),
 5 and paragraph (3) of section 6652(a) of the Internal Reve-
 6 nue Code of 1954 (as amended by section 222(b)(2) of this
 7 Act),

8 (28)Page 43, line 20, strike out **[(c)]** and insert: (b)

9 (29)Page 43, line 22, after “date.” insert: *In applying*
 10 *section 79(b) of the Internal Revenue Code of 1954 (as*
 11 *added by subsection (a)(1) of this section) to a taxable year*
 12 *beginning before May 1, 1964, if paragraph (2)(B) of*
 13 *such section applies with respect to an employee for the*
 14 *period beginning May 1, 1964, and ending with the close*
 15 *of his first taxable year ending after April 30, 1964, such*
 16 *paragraph (2)(B) shall be treated as applying with respect*
 17 *to such employee for the period beginning January 1, 1964,*
 18 *and ending April 30, 1964.*

1 **(30)**Page 44, strike out lines 1 to 20, inclusive, over to and
2 including line 10 on page 45.

3 **(31)**Page 45, line 17, strike out **["period."]** and insert:
4 *period if such amounts exceed 75 percent of the regular*
5 *weekly rate of wages of the employee; provided that if such*
6 *amounts are less than 75 percent of the regular weekly rate*
7 *of wages of the employee, the preceding sentence shall not*
8 *apply to amounts attributable to the first seven calendar days*
9 *in such period unless the employee is hospitalized on account*
10 *of sickness for at least one day during such period."*

11 **(32)**Page 52, after line 14, insert:

12 *"(5) State and local taxes on the sale of gasoline,*
13 *diesel fuel, and other motor fuels.*

14 *"(6) State and local taxes on the registration or*
15 *licensing of highway motor vehicles and on licenses for*
16 *the operation of highway motor vehicles.*

17 **(33)**Page 54, strike out lines 11 to 18, inclusive.

18 **(34)**Page 55, after line 4, insert:

19 *"(5) SEPARATELY STATED GENERAL SALES*
20 *TAXES AND GASOLINE TAXES.—If the amount of any*
21 *general sales tax or of any tax on the sale of gasoline,*
22 *diesel fuel, or other motor fuel is separately stated, then,*
23 *to the extent that the amount so stated is paid by the*
24 *consumer (otherwise than in connection with the con-*
25 *sumer's trade or business) to his seller, such amount shall*

1 *be treated as a tax imposed on, and paid by, such*
 2 *consumer.*

3 **(35)**Page 58, strike out lines 12, 13, and 14 and insert:

4 *(c) EFFECTIVE DATE.—*

5 *(1) GENERAL RULE.—Except as provided in para-*
 6 *graph (2), the amendments made by this section shall*
 7 *apply to taxable years beginning after December 31,*
 8 *1963.*

9 *(2) SPECIAL TAXING DISTRICTS.—Section 164*
 10 *(c)(1) of the Internal Revenue Code of 1954 (as*
 11 *amended by subsection (a)) shall not prevent the deduc-*
 12 *tion under section 164 of such Code (as so amended)*
 13 *of taxes levied by a special taxing district which is de-*
 14 *scribed in section 164(b)(5) of such Code (as in effect*
 15 *for a taxable year ending on December 31, 1963) and*
 16 *which was in existence on December 31, 1963, for the*
 17 *purpose of retiring indebtedness existing on such date.*

18 **(36)**Page 60, after line 5, insert:

19 *(b) LIMITATION OF UNLIMITED CHARITABLE CON-*
 20 *TRIBUTION DEDUCTION.—Section 170(b)(1) (relating to*
 21 *limitations on amount of deduction for charitable contributions*
 22 *by individuals) is amended by redesignating subparagraph*
 23 *(D) as subparagraph (E) and by inserting after subpara-*
 24 *graph (C) the following new subparagraph:*

25 *“(D) APPLICATION OF SUBPARAGRAPH (C)*

1 FOR TAXABLE YEARS BEGINNING AFTER DECEM-
2 BER 31, 1963.—If the taxable year begins after De-
3 cember 31, 1963—

4 “(i) subparagraph (C) shall apply only
5 if the taxpayer so elects (at such time and in
6 such manner as the Secretary or his delegate by
7 regulations prescribes), and

8 “(ii) for purposes of subparagraph (C),
9 the amount of the charitable contributions
10 for the taxable year (and for all prior tax-
11 able years beginning after December 31,
12 1963) shall be determined without the applica-
13 tion of paragraph (5) and solely by reference
14 to charitable contributions described in sub-
15 paragraph (A).

16 If the taxpayer elects to have subparagraph (C)
17 apply for the taxable year, then for such taxable
18 year subsection (a) shall apply only with respect
19 to charitable contributions described in subpara-
20 graph (A), and no amount of charitable contribu-
21 tions made in the taxable year or any prior taxable
22 year may be treated under paragraph (5) as hav-
23 ing been made in the taxable year or in any suc-
24 ceeding taxable year.”

1 (37)Page 60, after line 5, insert:

2 (c) 5-YEAR CARRYOVER OF CERTAIN CHARITABLE
3 CONTRIBUTIONS MADE BY INDIVIDUALS.—

4 (1) IN GENERAL.—Section 170(b) (relating to
5 limitations on amount of deduction for charitable con-
6 tributions) is amended by adding at the end thereof the
7 following new paragraph:

8 “(5) CARRYOVER OF CERTAIN EXCESS CONTRI-
9 BUTIONS BY INDIVIDUALS.—

10 “(A) In the case of an individual, if the amount
11 of charitable contributions described in paragraph
12 (1)(A) payment of which is made within a taxable
13 year (hereinafter in this paragraph referred to as
14 the ‘contribution year’) beginning after December
15 31, 1963, exceeds 30 percent of the taxpayer’s
16 adjusted gross income for such year (computed
17 without regard to any net operating loss carryback to
18 such year under section 172), such excess shall be
19 treated as a charitable contribution described in para-
20 graph (1)(A) paid in each of the 5 succeeding tax-
21 able years in order of time, but, with respect to any
22 such succeeding taxable year, only to the extent of
23 the lesser of the two following amounts:

24 “(i) the amount by which 30 percent of

1 the taxpayer's adjusted gross income for such
2 succeeding taxable year (computed without re-
3 gard to any net operating loss carryback to
4 such succeeding taxable year under section 172)
5 exceeds the sum of the charitable contributions
6 described in paragraph (1)(A) payment of
7 which is made by the taxpayer within such suc-
8 ceeding taxable year (determined without regard
9 to this subparagraph) and the charitable contri-
10 butions described in paragraph (1)(A) pay-
11 ment of which was made in taxable years (be-
12 ginning after December 31, 1963) before the
13 contribution year which are treated under this
14 subparagraph as having been paid in such suc-
15 ceeding taxable year; or

16 “(ii) in the case of the first succeeding tax-
17 able year, the amount of such excess, and in the
18 case of the second, third, fourth, or fifth succeed-
19 ing taxable year, the portion of such excess not
20 treated under this subparagraph as a charitable
21 contribution described in paragraph (1)(A)
22 paid in any taxable year intervening between
23 the contribution year and such succeeding tax-
24 able year.

25 “(B) In applying subparagraph (A), the

1 *excess determined under subparagraph (A) for the*
 2 *contribution year shall be reduced to the extent that*
 3 *such excess reduces taxable income (as computed for*
 4 *purposes of the second sentence of section 172(b)*
 5 *(2)) and increases the net operating loss deduction*
 6 *for a taxable year succeeding the contribution year.”*

7 (2) *TECHNICAL AMENDMENTS.—Sections 545*
 8 *(b)(2) (relating to deductions for charitable contribu-*
 9 *tions by personal holding companies) and 556(b)(2)*
 10 *(relating to deductions for charitable contributions by*
 11 *foreign personal holding companies) are each amended*
 12 *by striking out “section 170(b)(2)” and inserting in*
 13 *lieu thereof “section 170(b) (2) and (5)”.*

14 (38)Page 60, line 6, strike out **[(b)]** and insert: *(d)*

15 (39)Page 61, line 3, strike out **[years]** and insert: *year*

16 (40)Page 61, line 26, strike out **[(c)]** and insert: *(e)*

17 (41)Page 62, line 16, strike out all after “personal” over
 18 to and including line 2 on page 63 and insert: *property.”*

19 (42)Page 63, strike out lines 3 to 10, inclusive, and insert:

20 *(f) EFFECTIVE DATES.—*

21 *(1) The amendments made by subsections (a),*
 22 *(b), and (c), shall apply with respect to contributions*
 23 *which are paid in taxable years beginning after December*
 24 *31, 1963.*

25 *(2) The amendments made by subsection (d) shall*

1 apply to taxable years beginning after December 31,
 2 1963, with respect to contributions which are paid
 3 (or treated as paid under section 170(a)(2) of
 4 the Internal Revenue Code of 1954) in taxable years
 5 beginning after December 31, 1961.

6 (3) The amendments made by subsection (e) shall
 7 apply to transfers of future interests made after Decem-
 8 ber 31, 1963, in taxable years ending after such date.

9 (43)Page 63, after line 10, insert:

10 SEC. 210. LOSSES ARISING FROM EXPROPRIATION OF
 11 PROPERTY BY GOVERNMENTS OF FOREIGN
 12 COUNTRIES.

13 (a) NET OPERATING LOSS CARRYOVER.—Section
 14 172 (relating to net operating loss deduction) is amended—

15 (1) by striking out “Except as provided in clause
 16 (ii)” in subsection (b)(1)(A)(i) and inserting in lieu
 17 thereof “Except as provided in clause (ii) and in sub-
 18 paragraph (D)”;

19 (2) by striking out “Except as provided in sub-
 20 paragraph (C)” in subsection (b)(1)(B) and insert-
 21 ing in lieu thereof “Except as provided in subparagraphs
 22 (C) and (D)”;

23 (3) by adding at the end of subsection (b)(1) the
 24 following new subparagraph:

25 “(D) In the case of a taxpayer which has a

foreign expropriation loss (as defined in subsection (k)) for any taxable year ending after December 31, 1958, the portion of the net operating loss for such year attributable to such foreign expropriation loss shall not be a net operating loss carryback to any taxable year preceding the taxable year of such loss and shall be a net operating loss carryover to each of the 10 taxable years following the taxable year of such loss.”;

(4) by adding at the end of subsection (b)(3) the following new subparagraphs:

“(C) Paragraph (1)(D) shall apply only if—

“(i) the foreign expropriation loss (as defined in subsection (k)) for the taxable year equals or exceeds 50 percent of the net operating loss for the taxable year,

“(ii) in the case of a foreign expropriation loss for a taxable year ending after December 31, 1963, the taxpayer elects (at such time and in such manner as the Secretary or his delegate by regulations prescribes) to have paragraph (1)(D) apply, and

“(iii) in the case of a foreign expropriation loss for a taxable year ending after December 31, 1958, and before January 1, 1964, the tax-

1 payer elects (in such manner as may be pre-
 2 scribed by the Secretary or his delegate) on or
 3 before December 31, 1965, to have paragraph
 4 (1)(D) apply.

5 “(D) If a taxpayer makes an election under
 6 subparagraph (C)(iii), then (notwithstanding any
 7 law or rule of law), with respect to any taxable
 8 year ending before January 1, 1964, affected by the
 9 election—

10 “(i) the time for making or changing any
 11 choice or election under subpart A of part III
 12 of subchapter N (relating to foreign tax credit)
 13 shall not expire before January 1, 1966,

14 “(ii) any deficiency attributable to the elec-
 15 tion under subparagraph (C)(iii) or to the ap-
 16 plication of clause (i) of this subparagraph may
 17 be assessed at any time before January 1, 1969,
 18 and

19 “(iii) refund or credit of any overpayment
 20 attributable to the election under subparagraph
 21 (C)(iii) or to the application of clause (i) of
 22 this subparagraph may be made or allowed if
 23 claim therefor is filed before January 1,
 24 1969.”;

25 (5) by redesignating subsection (k) as (l), and by

1 inserting after subsection (j) the following new sub-
 2 section:

3 “(k) *FOREIGN EXPROPRIATION LOSS DEFINED.*—

4 *For purposes of subsection (b)—*

5 “(1) The term ‘foreign expropriation loss’ means,
 6 for any taxable year, the sum of the losses sustained by
 7 reason of the expropriation; intervention, seizure, or
 8 similar taking of property by the government of any
 9 foreign country, any political subdivision thereof, or any
 10 agency or instrumentality of the foregoing. For purposes
 11 of the preceding sentence, a debt which becomes worthless
 12 shall, to the extent of any deduction allowed under sec-
 13 tion 166(a), be treated as a loss.

14 “(2) The portion of the net operating loss for any
 15 taxable year attributable to a foreign expropriation loss is
 16 the amount of the foreign expropriation loss for such year
 17 (but not in excess of the net operating loss for such
 18 year).”

19 (b) *TECHNICAL AMENDMENTS.*—Section 172(b)(2)
 20 is amended—

21 (1) by striking out subparagraph (B) and insert-
 22 ing in lieu thereof the following:

23 “(B) by determining the amount of the net
 24 operating loss deduction—

1 “(i) without regard to the net operating
2 loss for the loss year or for any taxable year
3 thereafter, and

4 “(ii) without regard to that portion, if any,
5 of a net operating loss for a taxable year at-
6 tributable to a foreign expropriation loss, if
7 such portion may not, under paragraph (1)
8 (D), be carried back to such prior taxable
9 year,”; and

10 (2) by adding at the end thereof the following new
11 sentence: “For purposes of this paragraph, if a portion
12 of the net operating loss for the loss year is attributable
13 to a foreign expropriation loss to which paragraph (1)
14 (D) applies, such portion shall be considered to be a
15 separate net operating loss for such year to be applied
16 after the other portion of such net operating loss.”

17 (c) *EFFECTIVE DATE.*—The amendments made by this
18 section shall apply in respect of foreign expropriation losses
19 (as defined in section 172(k) of the Internal Revenue Code
20 of 1954, as amended by subsection (a)(5) of this section),
21 sustained in taxable years ending after December 31, 1958.

22 (44)Page 63, line 11, strike out **[210]** and insert: 211

23 (45)Page 64, line 1, strike out **[211]** and insert: 212

24 (46)Page 64, strike out lines 18 to 24, inclusive, and
25 insert:

1 “(B) The \$600 limit of subparagraph (A)—

2 “(i) shall be increased (to an amount not
3 above \$900) by the amount of expenses incurred
4 by the taxpayer for any period during which
5 the taxpayer had 2 dependents, and

6 “(ii) shall be increased (to an amount not
7 above \$1,000) by the amount of expenses in-
8 curred by the taxpayer for any period during
9 which the taxpayer had 3 or more dependents.

10 (47)Page 64, strike out all after line 24 over to and includ-
11 ing line 23 on page 65 and insert:

12 “(2) WORKING WIVES AND HUSBANDS WITH IN-
13 CAPACITATED WIVES.—In the case of a woman who is
14 married and in the case of a husband whose wife is
15 incapacitated, the deduction under subsection (a)—

16 “(A) shall not be allowed unless the taxpayer
17 and his spouse file a joint return for the taxable
18 year, and

19 “(B) shall be reduced by the amount (if any)
20 by which the adjusted gross income of the taxpayer
21 and his spouse exceeds \$7,000.

22 This paragraph shall not apply, in the case of a woman
23 who is married, to expenses incurred while her husband
24 is incapable of self-support because mentally or physi-
25 cally defective, or, in the case of a husband whose wife

1 *is incapacitated, to expenses incurred while his wife*
 2 *is institutionalized if such institutionalization is for a*
 3 *period of at least 90 consecutive days (whether or not*
 4 *within one taxable year) or a shorter period if termi-*
 5 *nated by her death.*

6 **(48)**Page 65, line 24, strike out **[(4)]** and insert: *(3)*

7 **(49)**Page 68, line 4, strike out **[212]** and insert: *213*

8 **(50)**Page 71, strike out the second and third lines after
 9 line 14 and insert:

*“Sec. 218. Contributions to political candidates and political
 committees.”*

10 **(51)**Page 72, line 3, strike out **[203 (c)]** and insert: *204*
 11 *(b)*

12 **(52)**Page 72, line 13, strike out **[December 31, 1963]**
 13 and insert: *the seventh day following the date of the enact-*
 14 *ment of this Act*

15 **(53)**Page 72, after line 13, insert:

16 **SEC. 214. DEDUCTION FOR POLITICAL CONTRIBUTIONS.**

17 *(a) ALLOWANCE OF DEDUCTION.—Part VII of sub-*
 18 *chapter B of chapter 1 (relating to additional itemized de-*
 19 *ductions for individuals) is amended by inserting after sec-*
 20 *tion 217 (as added by section 213(a)(1) of this Act) the*
 21 *following new section:*

1 “SEC. 218. CONTRIBUTIONS TO POLITICAL CANDIDATES
2 AND POLITICAL COMMITTEES.

3 “(a) ALLOWANCE OF DEDUCTION.—In the case of
4 an individual, there shall be allowed as a deduction any
5 political contribution payment of which is made by the tax-
6 payer within the taxable year.

7 “(b) LIMITATIONS.—

8 “(1) AMOUNT.—The deduction under subsection
9 (a) shall not exceed \$50 for any taxable year, except
10 that, in the case of a joint return of a husband and wife
11 under section 6013 for the taxable year, the deduction
12 shall not exceed \$100 for the taxable year.

13 “(2) VERIFICATION.—The deduction under sub-
14 section (a) shall be allowed, with respect to any political
15 contribution, only if such political contribution is verified
16 in such manner as the Secretary or his delegate shall
17 prescribe by regulations.

18 “(c) POLITICAL CONTRIBUTION DEFINED.—For pur-
19 poses of this section, the term ‘political contribution’ means
20 a contribution or gift to—

21 “(1) any political candidate, or

22 “(2) any political committee,

1 but only if such contribution or gift is made to further the
 2 candidacy of one or more individuals in a general, special,
 3 or primary election or a convention of a political party.

4 “(d) *CROSS REFERENCE.*—

“For disallowance of deduction to estates and trusts, see section 642(i).”

5 (b) *TECHNICAL AMENDMENT.*—Section 642 (relating
 6 to special rules for credits and deductions of estates and
 7 trusts) is amended by redesignating subsection (i) as sub-
 8 section (j), and by inserting after subsection (h) the follow-
 9 ing new subsection:

10 “(i) *POLITICAL CONTRIBUTIONS.*—An estate or trust
 11 shall not be allowed the deduction for political contributions
 12 provided by section 218.”

13 (c) *EFFECTIVE DATE.*—The amendments made by this
 14 section shall apply only with respect to contributions or gifts
 15 made after the date of the enactment of this Act in taxable
 16 years ending after such date.

17 (54)Page 72, after line 13, insert:

18 **SEC. 215. 100 PERCENT DIVIDENDS RECEIVED DEDUCTION**
 19 **FOR MEMBERS OF ELECTING AFFILIATED**
 20 **GROUPS.**

21 (a) *100 PERCENT DIVIDENDS RECEIVED DEDUC-*
 22 *TION.*—Section 243 (relating to dividends received by cor-
 23 porations) is amended to read as follows:

1 “SEC. 243. *DIVIDENDS RECEIVED BY CORPORATIONS.*

2 “(a) *GENERAL RULE.*—In the case of a corporation,
3 there shall be allowed as a deduction an amount equal to
4 the following percentages of the amount received as divi-
5 dends from a domestic corporation which is subject to taxa-
6 tion under this chapter:

7 “(1) 85 percent, in the case of dividends other
8 than dividends described in paragraph (2) or (3);

9 “(2) 100 percent, in the case of dividends re-
10 ceived by a small business investment company operat-
11 ing under the Small Business Investment Act of 1958;
12 and

13 “(3) 100 percent, in the case of qualifying divi-
14 dends (as defined in subsection (b)(1)).

15 “(b) *QUALIFYING DIVIDENDS.*—

16 “(1) *DEFINITION.*—For purposes of subsection
17 (a)(3), the term ‘qualifying dividends’ means dividends
18 received by a corporation which, at the close of the day
19 the dividends are received, is a member of the same
20 affiliated group of corporations (as defined in paragraph
21 (5)) as the corporation distributing the dividends, if—

22 “(A) such affiliated group has made an elec-
23 tion under paragraph (2) which is effective for
24 the taxable years of its members which include
25 such day, and

1 “(B) such dividends are distributed out of
2 earnings and profits of a taxable year of the dis-
3 tributing corporation ending after December 31,
4 1963—

5 “(i) on each day of which the distribut-
6 ing corporation and the corporation receiving
7 the dividends were members of such affiliated
8 group, and

9 “(ii) for which an election under section
10 1562 (relating to election of multiple surtax
11 exemptions) is not effective.

12 “(2) *ELECTION*.—An election under this para-
13 graph shall be made for an affiliated group by the com-
14 mon parent corporation, and shall be made for any tax-
15 able year of the common parent corporation at such
16 time and in such manner as the Secretary or his dele-
17 gate by regulations prescribes. Such election may not
18 be made for an affiliated group for any taxable year
19 of the common parent corporation for which an election
20 under section 1562 is effective. Each corporation which
21 is a member of such group at any time during its tax-
22 able year which includes the last day of such taxable
23 year of the common parent corporation must consent
24 to such election at such time and in such manner as the
25 Secretary or his delegate by regulations prescribes.

1 *An election under this paragraph shall be effective—*

2 *“(A) for the taxable year of each member of*
 3 *such affiliated group which includes the last day of*
 4 *the taxable year of the common parent corporation*
 5 *with respect to which the election is made (except*
 6 *that in the case of a taxable year of a member be-*
 7 *ginning in 1963 and ending in 1964, if the election*
 8 *is effective for the taxable year of the common par-*
 9 *ent corporation which includes the last day of such*
 10 *taxable year of such member, such election shall be*
 11 *effective for such taxable year of such member, if*
 12 *such member consents to such election with respect*
 13 *to such taxable year), and*

14 *“(B) for the taxable year of each member of*
 15 *such affiliated group which ends after the last day of*
 16 *such taxable year of the common parent corpora-*
 17 *tion but which does not include such date, unless*
 18 *the election is terminated under paragraph (4).*

19 *“(3) EFFECT OF ELECTION.—If an election by an*
 20 *affiliated group is effective with respect to a taxable year*
 21 *of the common parent corporation, then under regula-*
 22 *tions prescribed by the Secretary or his delegate—*

23 *“(A) no member of such affiliated group may*
 24 *consent to an election under section 1562 for such*
 25 *taxable year,*

1 “(B) the members of such affiliated group shall
 2 be treated as one taxpayer for purposes of making
 3 the elections under section 901(a) (relating to al-
 4 lowance of foreign tax credit) and section 904(b)
 5 (1) (relating to election of overall limitation), and

6 “(C) the members of such affiliated group shall
 7 be limited to one—

8 “(i) \$100,000 minimum accumulated
 9 earnings credit under section 535(c) (2) or
 10 (3),

11 “(ii) \$100,000 limitation for explora-
 12 tion expenditures under section 615 (a) and
 13 (b),

14 “(iii) \$400,000 limitation for exploration
 15 expenditures under section 615(c)(1),

16 “(iv) \$25,000 limitation on small business
 17 deduction of life insurance companies under
 18 sections 804(a)(4) and 809(d)(10), and

19 “(v) \$100,000 exemption for purposes of
 20 estimated tax filing requirements under section
 21 6016 and the addition to tax under section
 22 6655 for failure to pay estimated tax.

23 “(4) TERMINATION.—An election by an affiliated
 24 group under paragraph (2) shall terminate with respect
 25 to the taxable year of the common parent corporation

1 *and with respect to the taxable years of the members*
 2 *of such affiliated group which include the last day of*
 3 *such taxable year of the common parent corporation if—*

4 *“(A) CONSENT OF MEMBERS.—Such affiliated*
 5 *group files a termination of such election (at such*
 6 *time and in such manner as the Secretary or his*
 7 *delegate by regulations prescribes) with respect*
 8 *to such taxable year of the common parent corpora-*
 9 *tion, and each corporation which is a member of*
 10 *such affiliated group at any time during its taxable*
 11 *year which includes the last day of such taxable*
 12 *year of the common parent corporation consents to*
 13 *such termination, or*

14 *“(B) REFUSAL BY NEW MEMBER TO CON-*
 15 *SENT.—During such taxable year of the common*
 16 *parent corporation such affiliated group includes a*
 17 *member which—*

18 *“(i) was not a member of such group*
 19 *during such common parent corporation’s im-*
 20 *mediately preceding taxable year, and*

21 *“(ii) such member files a statement that*
 22 *it does not consent to the election at such time*
 23 *and in such manner as the Secretary or his*
 24 *delegate by regulations prescribes.*

25 *“(5) DEFINITION OF AFFILIATED GROUP.—For*

1 purposes of this subsection, the term ‘affiliated group’ has
 2 the meaning assigned to it by section 1504(a), except
 3 that for such purposes sections 1504(b)(2) and 1504(c)
 4 shall not apply.

5 “(6) *SPECIAL RULES FOR INSURANCE COMPA-*
 6 *NIES.—If an election under this subsection is effective for*
 7 *the taxable year of an insurance company subject to tax-*
 8 *ation under section 802 or 821—*

9 “(A) part II of subchapter B of chapter 6 (re-
 10 relating to certain controlled corporations) shall be
 11 applied without regard to section 1563(a)(4) (re-
 12 relating to certain insurance companies) and section
 13 1563(b)(2)(D) (relating to certain excluded mem-
 14 bers) with respect to such company and the other
 15 corporations which are members of the controlled
 16 group of corporations (as determined under section
 17 1563 without regard to subsections (a)(4) and
 18 (b)(2)(D)) of which such company is a member,
 19 and

20 “(B) for purposes of paragraph (1), a distri-
 21 bution by such company out of earnings and profits of
 22 a taxable year for which an election under this sub-
 23 section was not effective, and for which such company
 24 was not a component member of a controlled group
 25 of corporations within the meaning of section 1563

1 solely by reason of section 1563(b)(2)(D), shall
2 not be a qualifying dividend.

3 “(c) *SPECIAL RULES FOR CERTAIN DISTRIBUTIONS.*—For purposes of subsection (a)—

5 “(1) Any amount allowed as a deduction under
6 section 591 (relating to deduction for dividends paid
7 by mutual savings banks, etc.) shall not be treated as
8 a dividend.

9 “(2) A dividend received from a regulated invest-
10 ment company shall be subject to the limitations pre-
11 scribed in section 854.

12 “(3) Any dividend received from a real estate
13 investment trust which, for the taxable year of the trust
14 in which the dividend is paid, qualifies under part II of
15 subchapter M (section 856 and following) shall not be
16 treated as a dividend.

17 “(4) Any dividend received which is described in
18 section 244 (relating to dividends received on preferred
19 stock of a public utility) shall not be treated as a
20 dividend.

21 “(d) *CERTAIN DIVIDENDS FROM FOREIGN CORPORA-*
22 *TIONS.*—For purposes of subsection (a) and for purposes of
23 section 245, any dividend from a foreign corporation from
24 earnings and profits accumulated by a domestic corporation
25 during a period with respect to which such domestic corpora-

1 tion was subject to taxation under this chapter (or corre-
 2 sponding provisions of prior law) shall be treated as a
 3 dividend from a domestic corporation which is subject to
 4 taxation under this chapter.”

5 (b) *TECHNICAL AMENDMENTS.*—

6 (1) Section 244 (relating to dividends received on
 7 certain preferred stock) is amended by inserting “(a)
 8 *GENERAL RULE.*—” before “In case of a corpora-
 9 tion,” and by adding at the end thereof the following
 10 new subsection:

11 “(b) *EXCEPTION.*—If the dividends described in sub-
 12 section (a)(1) are qualifying dividends (as defined in sec-
 13 tion 243(b)(1), but determined without regard to section
 14 243(c)(4))—

15 “(1) subsection (a) shall be applied separately to
 16 such qualifying dividends, and

17 “(2) for purposes of subsection (a)(3), the per-
 18 centage applicable to such qualifying dividends shall be
 19 100 percent in lieu of 85 percent.”

20 (2) Section 246(b) (relating to limitation on
 21 aggregate amount of deductions for dividends received)
 22 is amended by striking out “243(a), 244,” each place
 23 it appears therein and inserting in lieu thereof “243(a)
 24 (1), 244(a),”.

25 (3) Section 804(a)(5) (relating to the applica-

1 tion of section 246(b) to taxable investment income of
 2 life insurance companies) is amended by striking out
 3 “243(a), 244,” and inserting in lieu thereof “243(a)
 4 (1), 244(a),”.

5 (4) Section 809(d)(8)(B) (relating to the ap-
 6 plication of section 246(b) to the life insurance com-
 7 pany's share of certain dividends) is amended by striking
 8 out “243(a), 244,” each place it appears therein and
 9 inserting in lieu thereof “243(a)(1), 244(a),”.

10 (c) *EFFECTIVE DATE.*—The amendments made by
 11 subsections (a) and (b) shall apply with respect to divi-
 12 dends received in taxable years ending after December 31,
 13 1963.

14 (55)Page 72, line 14, strike out **[213]** and insert: 216

15 (56)Page 73, line 8, strike out **[August 6, 1963]** and
 16 insert: *December 31, 1963*

17 (57)Page 74, after line 13, insert:

18 *SEC. 217. INTEREST ON INDEBTEDNESS INCURRED OR*
 19 *CONTINUED TO PURCHASE OR CARRY TAX-*
 20 *EXEMPT BONDS.*

21 (a) *APPLICATION WITH RESPECT TO CERTAIN FI-*
 22 *NANCIAL INSTITUTIONS.*—Section 265 (relating to expenses
 23 and interest relating to tax-exempt income) is amended by
 24 adding at the end of paragraph (2) the following new sen-
 25 tence: “In applying the preceding sentence to a financial in-

stitution (other than a bank) which is subject to the banking laws of the State in which such institution is incorporated, interest on face-amount certificates (as defined in section 2(a)(15) of the Investment Company Act of 1940 (15 U.S.C. 80a-2)) issued by such institution, and interest on amounts received for the purchase of such certificates to be issued by such institution, shall not be considered as interest on indebtedness incurred or continued to purchase or carry obligations the interest on which is wholly exempt from the taxes imposed by this subtitle, to the extent that the average amount of such obligations held by such institution during the taxable year (as determined under regulations prescribed by the Secretary or his delegate) does not exceed 25 percent of the average of the total assets held by such institution during the taxable year (as so determined)."

(b) *EFFECTIVE DATE.*—The amendment made by subsection (a) shall apply with respect to taxable years ending after the date of the enactment of this Act.

(58)Page 74, after line 13, insert:

SEC. 218. REPEAL OF REQUIREMENT OF ALLOCATION OF CERTAIN TRAVELING EXPENSES.

(a) *REPEAL OF SECTION 274(c).*—Section 274 (relating to disallowance of certain entertainment, etc., expenses) is amended by striking out subsection (c) (relating to traveling).

1 (b) *EFFECTIVE DATE*.—The amendment made by sub-
 2 section (a) shall apply with respect to taxable years ending
 3 after December 31, 1962, but only in respect of periods after
 4 such date.

5 (59)Page 74, after line 13, insert:

6 *SEC. 219. ACQUISITION OF STOCK IN EXCHANGE FOR*
 7 *STOCK OF CORPORATION WHICH IS IN CON-*
 8 *TROL OF ACQUIRING CORPORATION.*

9 (a) *DEFINITION OF REORGANIZATION*.—Section 368
 10 (a)(1) (relating to definition of reorganization) is amended
 11 by inserting after “voting stock” in subparagraph (B) “(or
 12 in exchange solely for all or a part of the voting stock of a
 13 corporation which is in control of the acquiring
 14 corporation)”.

15 (b) *TECHNICAL AMENDMENTS*.—

16 (1) Section 368(a)(2)(C) (relating to special
 17 rules) is amended to read as follows:

18 “(C) *TRANSFERS OF ASSETS OR STOCK TO*
 19 *SUBSIDIARIES IN CERTAIN PARAGRAPH (1)(A),*
 20 *(1)(B), AND (1)(C) CASES*.—A transaction otherwise
 21 qualifying under paragraph (1)(A), (1)(B), or
 22 (1)(C) shall not be disqualified by reason of the
 23 fact that part or all of the assets or stock which were

1 acquired in the transaction are transferred to a
 2 corporation controlled by the corporation acquiring
 3 such assets or stock.”

4 (2) Section 368(b) (relating to definition of party
 5 to a reorganization) is amended by striking out the last
 6 two sentences and inserting in lieu thereof the following:
 7 “*In the case of a reorganization qualifying under para-*
 8 *graph (1)(B) or (1)(C) of subsection (a), if the*
 9 *stock exchanged for the stock or properties is stock of*
 10 *a corporation which is in control of the acquiring corpo-*
 11 *ration, the term ‘a party to a reorganization’ includes*
 12 *the corporation so controlling the acquiring corporation.*
 13 *In the case of a reorganization qualifying under para-*
 14 *graph (1)(A), (1)(B), or (1)(C) of subsection*
 15 *(a) by reason of paragraph (2)(C) of subsection (a),*
 16 *the term ‘a party to a reorganization’ includes the corpo-*
 17 *ration controlling the corporation to which the acquired*
 18 *assets or stock are transferred.”*

19 (c) *EFFECTIVE DATE.*—*The amendments made by this*
 20 *section shall apply with respect to transactions after December*
 21 *31, 1963, in taxable years ending after such date.*

1 (60)Page 74, after line 13, insert:

2 SEC. 220. RETROACTIVE QUALIFICATION OF CERTAIN
3 UNION-NEGOTIATED MULTIEMPLOYER PEN-
4 SION PLANS.

5 (a) BEGINNING OF PERIOD AS QUALIFIED TRUST.—

6 Section 401 (relating to qualified pension, profit-sharing, and
7 stock bonus plans) is amended by redesignating subsection
8 (i) as subsection (j), and by inserting after subsection (h)
9 the following new subsection:

10 “(i) CERTAIN UNION-NEGOTIATED MULTIEMPLOYER
11 PENSION PLANS.—In the case of a trust forming part of a
12 pension plan which has been determined by the Secretary or
13 his delegate to constitute a qualified trust under subsection
14 (a) and to be exempt from taxation under section 501(a)
15 for a period beginning after contributions were first made to
16 or for such trust, if it is shown to the satisfaction of the Sec-
17 retary or his delegate that—

18 “(1) such trust was created pursuant to a collective
19 bargaining agreement between employee representatives
20 and two or more employers who are not related (deter-

1 mined under regulations prescribed by the Secretary or
2 his delegate),

3 “(2) any disbursements of contributions, made to or
4 for such trust before the time as of which the Secretary or
5 his delegate determined that the trust constituted a quali-
6 fied trust, substantially complied with the terms of the
7 trust, and the plan of which the trust is a part, as subse-
8 quently qualified, and

9 “(3) before the time as of which the Secretary or his
10 delegate determined that the trust constitutes a qualified
11 trust, the contributions to or for such trust were not
12 used in a manner which would jeopardize the interests
13 of its beneficiaries,

14 then such trust shall be considered as having constituted a
15 qualified trust under subsection (a) and as having been
16 exempt from taxation under section 501(a) for the period
17 beginning on the date on which contributions were first made
18 to or for such trust and ending on the date such trust first con-
19 stituted (without regard to this subsection) a qualified trust
20 under subsection (a).”

21 (b) *EFFECTIVE DATE.*—The amendments made by
22 subsection (a) shall apply with respect to taxable years
23 beginning after December 31, 1953, and ending after Au-
24 gust 16, 1954, but only with respect to contributions made
25 after December 31, 1954.

1 (61)Page 74, after line 13, insert:

2 SEC. 221. QUALIFIED PENSION, ETC., PLAN COVERAGE
3 FOR EMPLOYEES OF CERTAIN SUBSIDIARY
4 EMPLOYERS.

5 (a) EMPLOYEES OF FOREIGN SUBSIDIARIES COV-
6 ERED BY SOCIAL SECURITY AGREEMENTS.—Part I of sub-
7 chapter D of chapter 1 (relating to pension, profit-sharing,
8 stock bonus plans, etc.) is amended by adding at the end
9 thereof the following new section:

10 “SEC. 406. CERTAIN EMPLOYEES OF FOREIGN SUBSIDI-
11 ARIES.

12 “(a) TREATMENT AS EMPLOYEES OF DOMESTIC COR-
13 PORATION.—For purposes of applying this part with respect
14 to a pension, profit-sharing, or stock bonus plan described in
15 section 401(a), an annuity plan described in section 403(a),
16 or a bond purchase plan described in section 405(a), of a
17 domestic corporation, an individual who is a citizen of the
18 United States and who is an employee of a foreign subsidiary
19 (as defined in section 3121(l)(8)) of such domestic corpo-
20 ration shall be treated as an employee of such domestic
21 corporation, if—

22 “(1) such domestic corporation has entered into an
23 agreement under section 3121(l) which applies to the
24 foreign subsidiary of which such individual is an em-
25 ployee;

1 “(2) the plan of such domestic corporation expressly
2 provides for contributions or benefits for individuals who
3 are citizens of the United States and who are employees
4 of its foreign subsidiaries to which an agreement entered
5 into by such domestic corporation under section 3121
6 (1) applies; and

7 “(3) contributions under a funded plan of deferred
8 compensation (whether or not a plan described in section
9 401(a), 403(a), or 405(a)) are not provided by any
10 other person with respect to the remuneration paid to
11 such individual by the foreign subsidiary.

12 “(b) *SPECIAL RULES FOR APPLICATION OF SECTION*
13 *401(a).*—

14 “(1) *NONDISCRIMINATION REQUIREMENTS.*—For
15 purposes of applying paragraphs (3)(B) and (4) of
16 section 401(a) with respect to an individual who is
17 treated as an employee of a domestic corporation under
18 subsection (a)—

19 “(A) if such individual is an officer, share-
20 holder, or person whose principal duties consist in
21 supervising the work of other employees of a for-
22 eign subsidiary of such domestic corporation, he
23 shall be treated as having such capacity with respect
24 to such domestic corporation; and

1 “(B) the determination of whether such indi-
2 vidual is a highly compensated employee shall be
3 made by treating such individual’s total compensa-
4 tion (determined with the application of paragraph
5 (2) of this subsection) as compensation paid by
6 such domestic corporation and by determining such
7 individual’s status with regard to such domestic
8 corporation.

9 “(2) DETERMINATION OF COMPENSATION.—For
10 purposes of applying paragraph (5) of section 401(a)
11 with respect to an individual who is treated as an em-
12 ployee of a domestic corporation under subsection (a)—

13 “(A) the total compensation of such individual
14 shall be the remuneration paid to such individual
15 by the foreign subsidiary which would constitute
16 his total compensation if his services had been per-
17 formed for such domestic corporation, and the basic
18 or regular rate of compensation of such individual
19 shall be determined under regulations prescribed
20 by the Secretary or his delegate; and

21 “(B) such individual shall be treated as having
22 paid the amount paid by such domestic corporation
23 which is equivalent to the tax imposed by section
24 3101.

1 “(c) *TERMINATION OF STATUS AS DEEMED EM-*
2 *PLOYEE NOT TO BE TREATED AS SEPARATION FROM*
3 *SERVICE FOR PURPOSES OF CAPITAL GAIN PROVISIONS.—*

4 *For purposes of applying section 402(a)(2) and section 403*
5 *(a)(2) with respect to an individual who is treated as an*
6 *employee of a domestic corporation under subsection (a),*
7 *such individual shall not be considered as separated from the*
8 *service of such domestic corporation solely by reason of the*
9 *fact that—*

10 “(1) *the agreement entered into by such domestic*
11 *corporation under section 3121(l) which covers the*
12 *employment of such individual is terminated under the*
13 *provisions of such section,*

14 “(2) *such individual becomes an employee of a*
15 *foreign subsidiary with respect to which such agreement*
16 *does not apply,*

17 “(3) *such individual ceases to be an employee of the*
18 *foreign subsidiary by reason of which he is treated as*
19 *an employee of such domestic corporation, if he becomes*
20 *an employee of another corporation controlled by such*
21 *domestic corporation, or*

22 “(4) *the provision of the plan described in subsec-*
23 *tion (a)(2) is terminated.*

1 “(d) DEDUCTIBILITY OF CONTRIBUTIONS.—For pur-
 2 poses of applying sections 404 and 405(c) with respect to
 3 contributions made to or under a pension, profit-sharing, stock
 4 bonus, annuity, or bond purchase plan by a domestic cor-
 5 poration, or by another corporation which is entitled to de-
 6 duct its contributions under section 404(a)(3)(B), on behalf
 7 of an individual who is treated as an employee of such domes-
 8 tic corporation under subsection (a)—

9 “(1) except as provided in paragraph (2), no de-
 10 duction shall be allowed to such domestic corporation or
 11 to any other corporation which is entitled to deduct its
 12 contributions under such sections,

13 “(2) there shall be allowed as a deduction to the
 14 foreign subsidiary of which such individual is an em-
 15 ployee an amount equal to the amount which (but for
 16 paragraph (1)) would be deductible under section 404
 17 (or section 405(c)) by the domestic corporation if he
 18 were an employee of the domestic corporation, and

19 “(3) any reference to compensation shall be con-
 20 sidered to be a reference to the total compensation of
 21 such individual (determined with the application of sub-
 22 section (b)(2)).

23 Any amount deductible by a foreign subsidiary under this

1 subsection shall be deductible for its taxable year with or
 2 within which the taxable year of such domestic corporation
 3 ends.

4 “(e) *TREATMENT AS EMPLOYEE UNDER RELATED*
 5 *PROVISIONS.*—An individual who is treated as an employee
 6 of a domestic corporation under subsection (a) shall also be
 7 treated as an employee of such domestic corporation, with
 8 respect to the plan described in subsection (a)(2), for pur-
 9 poses of applying the following provisions of this title:

10 “(1) Section 72(d) (relating to employees’ an-
 11 nuities).

12 “(2) Section 72(f) (relating to special rules for
 13 computing employees’ contributions).

14 “(3) Section 101(b) (relating to employees’ death
 15 benefits).

16 “(4) Section 2039 (relating to annuities).

17 “(5) Section 2517 (relating to certain annuities
 18 under qualified plans).”

19 (b) *EMPLOYEES OF DOMESTIC SUBSIDIARIES EN-*
 20 *GAGED IN BUSINESS OUTSIDE THE UNITED STATES.*—
 21 Part I of subchapter D of chapter 1 (relating to pension,
 22 profit-sharing, stock bonus plans, etc.) is amended by adding
 23 after section 406 (as added by subsection (a)) the following
 24 new section:

1 “SEC. 407. CERTAIN EMPLOYEES OF DOMESTIC SUBSIDI-
2 ARIES ENGAGED IN BUSINESS OUTSIDE THE
3 UNITED STATES.

4 “(a) TREATMENT AS EMPLOYEES OF DOMESTIC
5 PARENT CORPORATION.—

6 “(1) IN GENERAL.—For purposes of applying this
7 part with respect to a pension, profit-sharing, or stock
8 bonus plan described in section 401(a), an annuity plan
9 described in section 403(a), or a bond purchase plan de-
10 scribed in section 405(a), of a domestic parent corpora-
11 tion, an individual who is a citizen of the United States
12 and who is an employee of a domestic subsidiary (within
13 the meaning of paragraph (2)) of such domestic parent
14 corporation shall be treated as an employee of such do-
15 mestic parent corporation, if—

16 “(A) the plan of such domestic parent corpora-
17 tion expressly provides for contributions or benefits
18 for individuals who are citizens of the United States
19 and who are employees of its domestic subsidiaries;
20 and

21 “(B) contributions under a funded plan of de-
22 ferred compensation (whether or not a plan de-
23 scribed in section 401(a), 403(a), or 405(a)) are
24 not provided by any other person with respect to the

1 remuneration paid to such individual by the domestic
2 subsidiary.

3 “(2) DEFINITIONS.—For purposes of this section—

4 “(A) DOMESTIC SUBSIDIARY.—A corporation
5 shall be treated as a domestic subsidiary for any
6 taxable year only if—

7 “(i) such corporation is a domestic cor-
8 poration 80 percent or more of the outstanding
9 voting stock of which is owned by another domes-
10 tic corporation;

11 “(ii) 95 percent or more of its gross in-
12 come for the three-year period immediately pre-
13 ceding the close of its taxable year which ends on
14 or before the close of the taxable year of such
15 other domestic corporation (or for such part of
16 such period during which the corporation was
17 in existence) was derived from sources without
18 the United States; and

19 “(iii) 90 percent or more of its gross in-
20 come for such period (or such part) was de-
21 rived from the active conduct of a trade or
22 business.

23 “(B) DOMESTIC PARENT CORPORATION.—The
24 domestic parent corporation of any domestic sub-
25 sidiary is the domestic corporation which owns 80

1 percent or more of the outstanding voting stock of
2 such domestic subsidiary.

3 “(b) *SPECIAL RULES FOR APPLICATION OF SECTION*
4 401(a).—

5 “(1) *NONDISCRIMINATION REQUIREMENTS.*—For
6 purposes of applying paragraphs (3)(B) and (4) of
7 section 401(a) with respect to an individual who is
8 treated as an employee of a domestic parent corporation
9 under subsection (a)—

10 “(A) if such individual is an officer, share-
11 holder, or person whose principal duties consist in
12 supervising the work of other employees of a domes-
13 tic subsidiary, he shall be treated as having such
14 capacity with respect to such domestic parent cor-
15 poration; and

16 “(B) the determination of whether such indi-
17 vidual is a highly compensated employee shall be
18 made by treating such individual's total compensa-
19 tion (determined with the application of paragraph
20 (2) of this subsection) as compensation paid by
21 such domestic parent corporation and by determin-
22 ing such individual's status with regard to such
23 domestic parent corporation.

24 “(2) *DETERMINATION OF COMPENSATION.*—
25 For purposes of applying paragraph (5) of section

1 401(a) with respect to an individual who is treated as
 2 an employee of a domestic parent corporation under
 3 subsection (a), the total compensation of such indi-
 4 vidual shall be the remuneration paid to such individual
 5 by the domestic subsidiary which would constitute his total
 6 compensation if his services had been performed for such
 7 domestic parent corporation, and the basic or regular
 8 rate of compensation of such individual shall be deter-
 9 mined under regulations prescribed by the Secretary or
 10 his delegate.

11 “(c) *TERMINATION OF STATUS AS DEEMED EM-*
 12 *PLOYEE NOT TO BE TREATED AS SEPARATION FROM*
 13 *SERVICE FOR PURPOSES OF CAPITAL GAIN PROVI-*
 14 *SIONS.*—For purposes of applying section 402(a)(2) and
 15 section 403(a)(2) with respect to an individual who is
 16 treated as an employee of a domestic parent corporation under
 17 subsection (a), such individual shall not be considered as
 18 separated from the service of such domestic parent corpora-
 19 tion solely by reason of the fact that—

20 “(1) the corporation of which such individual is an
 21 employee ceases, for any taxable year, to be a domestic
 22 subsidiary within the meaning of subsection (a)(2)(A),

23 “(2) such individual ceases to be an employee of
 24 a domestic subsidiary of such domestic parent corpora-

tion, if he becomes an employee of another corporation controlled by such domestic parent corporation, or

“(3) the provision of the plan described in subsection (a)(1)(A) is terminated.

“(d) DEDUCTIBILITY OF CONTRIBUTIONS.—For purposes of applying sections 404 and 405(c) with respect to contributions made to or under a pension, profit-sharing, stock bonus, annuity, or bond purchase plan by a domestic parent corporation, or by another corporation which is entitled to deduct its contributions under section 404(a)(3)(B), on behalf of an individual who is treated as an employee of such domestic corporation under subsection (a)—

“(1) except as provided in paragraph (2), no deduction shall be allowed to such domestic parent corporation or to any other corporation which is entitled to deduct its contributions under such sections,

“(2) there shall be allowed as a deduction to the domestic subsidiary of which such individual is an employee an amount equal to the amount which (but for paragraph (1)) would be deductible under section 404 (or section 405(c)) by the domestic parent corporation if he were an employee of the domestic parent corporation, and

“(3) any reference to compensation shall be con-

1 sidered to be a reference to the total compensation of
 2 such individual (determined with the application of sub-
 3 section (b)(2)).

4 Any amount deductible by a domestic subsidiary under this
 5 subsection shall be deductible for its taxable year with or
 6 within which the taxable year of such domestic parent cor-
 7 poration ends.

8 “(e) *TREATMENT AS EMPLOYEE UNDER RELATED*
 9 *PROVISIONS.*—An individual who is treated as an employee
 10 of a domestic parent corporation under subsection (a) shall
 11 also be treated as an employee of such domestic parent cor-
 12 poration, with respect to the plan described in subsection
 13 (a)(1)(A), for purposes of applying the following provi-
 14 sions of this title:

15 “(1) Section 72(d) relating to employees’
 16 annuities).

17 “(2) Section 72(f) relating to special rules for
 18 computing employees’ contributions).

19 “(3) Section 101(b) (relating to employees’ death
 20 benefits).

21 “(4) Section 2039 (relating to annuities).

22 “(5) Section 2517 (relating to certain annuities
 23 under qualified plans).”

1 (c) *TECHNICAL AMENDMENTS.*—

2 (1) *The table of sections for part I of subchapter*
 3 *D of chapter 1 is amended by adding at the end thereof*
 4 *the following:*

 “*Sec. 406. Certain employees of foreign subsidiaries.*

 “*Sec. 407. Certain employees of domestic subsidiaries en-*
 gaged in business outside the United States.”

5 (2) *Section 3121(a)(5) (relating to definition of*
 6 *wages) is amended by striking out “or” at the end of*
 7 *subparagraph (A) and by striking out subparagraph*
 8 *(B) and inserting in lieu thereof the following new sub-*
 9 *paragraphs:*

10 “*(B) under or to an annuity plan which, at*
 11 *the time of such payment, is a plan described in*
 12 *section 403(a), or*

13 “*(C) under or to a bond purchase plan which,*
 14 *at the time of such payment, is a qualified bond pur-*
 15 *chase plan described in section 405(a);”.*

16 (3) *Section 209(e) of the Social Security Act*
 17 *(relating to the definition of wages) is amended to read*
 18 *as follows:*

19 “*(e) Any payment made to, or on behalf of, an em-*

1 ployee or his beneficiary (1) from or to a trust exempt
2 from tax under section 165(a) of the Internal Revenue
3 Code of 1939 at the time of such payment or, in the case
4 of a payment after 1954, under sections 401 and 501(a)
5 of the Internal Revenue Code of 1954, unless such pay-
6 ment is made to an employee of the trust as remuneration
7 for services rendered as such employee and not as a bene-
8 ficiary of the trust, or (2) under or to an annuity plan
9 which, at the time of such payment, meets the requirements
10 of section 165(a) (3), (4), (5), and (6) of the Internal
11 Revenue Code of 1939 or, in the case of a payment after
12 1954 and prior to 1963, the requirements of section 401(a)
13 (3), (4), (5), and (6) of the Internal Revenue Code of
14 1954, or (3) under or to an annuity plan which, at the
15 time of any such payment after 1962, is a plan described
16 in section 403(a) of the Internal Revenue Code of 1954,
17 or (4) under or to a bond purchase plan which, at the time
18 of any such payment after 1962, is a qualified bond pur-
19 chase plan described in section 405(a) of the Internal
20 Revenue Code of 1954;”.

21 (d) *EFFECTIVE DATE.*—The amendments made by
22 subsections (a), (b), and (c) (1) shall apply to taxable years
23 ending after December 31, 1963. The amendments made by
24 subsections (c) (2) and (3) shall apply to remuneration
25 paid after December 31, 1962.

1 (62)Page 74, line 14, strike out [214] and insert: 222

2 (63)Page 78, line 1, strike out [amount,] and insert:

3 *amount*

4 (64)Page 79, line 8, strike out [June 11, 1963] and insert:

5 *December 31, 1963*

6 (65)Page 79, line 10, strike out [424(c)(4)(A)] and

7 insert: *424(c)(3)(A)*

8 (66)Page 82, line 13, strike out [June 11, 1963,] and in-

9 sert: *December 31, 1963,*

10 (67)Page 82, line 17, strike out [June 12, 1963,] and

11 insert: *January 1, 1964,*

12 (68)Page 83, line 11, strike out [or] and insert: *and*

13 (69)Page 84, line 19, strike out [amount paid for] and

14 insert: *adjusted basis of*

15 (70)Page 85, after line 5, insert:

16 “(6) *EXCEPTION TO APPLICATION OF SUBSEC-*
17 *TION (b)(5).—Paragraph (5) of subsection (b) shall not*
18 *apply if—*

19 “(A) *the option being granted and all outstand-*
20 *ing qualified (or restricted) stock options referred*
21 *to in subsection (b)(5) are to purchase stock of the*
22 *same class in the same corporation, and*

23 “(B) *the price payable under each such out-*
24 *standing option (as of the date of grant of the*

1 *option being granted) is not more than the option*
 2 *price of the option being granted.*

3 (71)Page 85, lines 9 and 10, strike out [June 11, 1963]
 4 and insert: *December 31, 1963*

5 (72)Page 85, line 11, strike out [424(c)(4)(B)] and
 6 insert: *424(c)(3)(B)*

7 (73)Page 86, line 7, strike out [corporations] and insert:
 8 *corporation*

9 (74)Page 91, line 23, strike out [June 12, 1963] and
 10 insert: *January 1, 1964*

11 (75)Page 92, line 1, strike out [(c)(4)] and insert:
 12 *(c)(3)*

13 (76)Page 92, line 2, strike out [June 11, 1963] and
 14 insert: *December 31, 1963*

15 (77)Page 92, line 25, strike out [granted,] and insert:
 16 *granted*

17 (78)Page 95, strike out lines 5 to 9, inclusive.

18 (79)Page 95, line 10, strike out [(3)] and insert: (2)

19 (80)Page 95, line 24, strike out [(4)] and insert: (3)

20 (81)Page 95, lines 24 and 25, strike out [JUNE 11, 1963]
 21 and insert: *DECEMBER 31, 1963*

22 (82)Page 96, line 1, strike out [June 11, 1963,] and
 23 insert: *December 31, 1963,*

- 1 (83)Page 96, line 4, strike out [June 12, 1963,] and
 2 insert: *January 1, 1964*,
- 3 (84)Page 96, line 6, strike out [June 12, 1963,] where it
 4 appears the first time and insert: *January 1, 1964*,
- 5 (85)Page 96, line 6, strike out [June 12, 1963,] where it
 6 appears the second time and insert: *January 1, 1964*,
- 7 (86)Page 101, line 12, strike out [June 12, 1963] and in-
 8 sert: *January 1, 1964*
- 9 (87)Page 101, line 13, strike out [June 11, 1963] and in-
 10 sert: *December 31, 1963*
- 11 (88)Page 101, lines 14 and 15, strike out [June 12, 1963]
 12 and insert: *January 1, 1964*
- 13 (89)Page 102, line 5, strike out [or]
- 14 (90)Page 102, line 7, strike out [424 (b) (2) .] and insert:
 15 *424(b)(2); or*
- 16 (91)Page 102, after line 7, insert:
 17 “(C) in the case of an option not immediately
 18 *exercisable in full, to accelerate the time at which*
 19 *the option may be exercised.*
- 20 (92)Page 102, after line 12, insert:
 21 “(i) STOCKHOLDER APPROVAL.—For
 22 *purposes of this part, if the grant of an option*
 23 *is subject to approval by stockholders, the date*

1 of grant of the option shall be determined as if
2 the option had not been subject to such approval.

3 (93)Page 102, line 13, strike out [(i)] and insert: (j)

4 (94) Page 105, strike out all after line 5 over to and includ-
5 ing line 7 on page 106 and insert:

6 (a) RETURNS RELATING TO PAYMENTS OF DIVI-
7 DENDS, ETC., AND CERTAIN TRANSFERS OF STOCK.—In
8 the case of each failure—

9 “(1) to file a statement of the aggregate amount of
10 payments to another person required by section 6042

11 (a)(1) (relating to payments of dividends aggregating
12 \$10 or more), section 6044(a)(1) (relating to pay-
13 ments of patronage dividends aggregating \$10 or more),
14 or section 6049(a)(1) (relating to payments of interest
15 aggregating \$10 or more),

16 “(2) to make a return required by section 6039(a)
17 (relating to reporting information in connection with
18 certain options) with respect to a transfer of stock or a
19 transfer of legal title to stock, or

20 “(3) to make a return required by section 6052(a)
21 (relating to reporting payment of wages in the form of
22 group-term life insurance) with respect to group-term
23 life insurance on the life of an employee,

24 on the date prescribed therefor (determined with regard to
25 any extension of time for filing), unless it is shown that such

1 failure is due to reasonable cause and not to willful neglect,
 2 there shall be paid (upon notice and demand by the Secre-
 3 tary or his delegate and in the same manner as tax), by
 4 the person failing to file a statement referred to in paragraph
 5 (1) or failing to make a return referred to in paragraph
 6 (2) or (3), \$10 for each such failure, but the total amount
 7 imposed on the delinquent person for all such failures during
 8 any calendar year shall not exceed \$25,000.”

9 (95)Page 107, strike out lines 16 to 19, inclusive, over to
 10 and including line 3 on page 108 and insert:

11 (e) *EFFECTIVE DATES AND TRANSITION RULES.*—

12 (1) Except as provided in paragraphs (2) and
 13 (3), the amendments made by this section shall apply
 14 to taxable years ending after December 31, 1963.

15 (2) The amendments made by paragraphs (1) and
 16 (3) of subsection (b), and paragraph (2) of section
 17 6652(a) of the Internal Revenue Code of 1954 (as
 18 amended by paragraph (2) of subsection (b)), shall
 19 apply to stock transferred pursuant to options exercised
 20 on or after January 1, 1964.

21 (3) In the case of an option granted after Decem-
 22 ber 31, 1963, and before January 1, 1965—

23 (A) paragraphs (1) and (2) of section 422
 24 (b) of the Internal Revenue Code of 1954 (as
 25 added by subsection (a)) shall not apply, and

1 (B) paragraph (1) of section 425(h) of such
 2 Code (as added by subsection (a)) shall not apply
 3 to any change in the terms of such option made
 4 before January 1, 1965, to permit such option to
 5 qualify under paragraphs (3), (4), and (5) of
 6 such section 422(b).

7 **(96)**Page 108, after line 3, insert:

8 **SEC. 223. INSTALLMENT SALES BY DEALERS IN PERSONAL**
 9 **PROPERTY.**

10 (a) **INSTALLMENT PLANS.**—Section 453(a) (relating
 11 to reporting of income by dealers in personal property from
 12 sales on the installment plan) is amended to read as follows:

13 “(a) **DEALERS IN PERSONAL PROPERTY.**—

14 “(1) **GENERAL RULE.**—Under regulations pre-
 15 scribed by the Secretary or his delegate, a person who
 16 regularly sells or otherwise disposes of personal property
 17 on the installment plan may return as income therefrom
 18 in any taxable year that proportion of the installment
 19 payments actually received in that year which the gross
 20 profit, realized or to be realized when payment is com-
 21 pleted, bears to the total contract price.

22 “(2) **INSTALLMENT PLAN.**—For purposes of para-
 23 graph (1), the term ‘installment plan’ includes any plan
 24 which provides for the payment by the purchaser for
 25 the personal property sold to him in a series of periodic

installments of an agreed part or installment of the debt due the seller.

“(3) *TOTAL CONTRACT PRICE*.—For purposes of paragraph (1), the term ‘total contract price’ includes all charges relative to the sale of the personal property, including the time price differential which represents the amount paid or payable for the privilege of purchasing the personal property to be paid for by the purchaser in installments over a period of time.”

(b) *EFFECTIVE DATE*.—The amendment made by subsection (a) shall apply to taxable years beginning after December 31, 1963.

(97)Page 108, after line 3, insert:

SEC. 224. TIMING OF DEDUCTIONS AND CREDITS IN CERTAIN CASES WHERE ASSERTED LIABILITIES ARE CONTESTED.

(a) *TAXABLE YEAR OF DEDUCTION OR CREDIT*.—

(1) Section 461 (relating to general rule for taxable year of deduction) is amended by adding at the end thereof the following new subsection:

“(f) *CONTESTED LIABILITIES*.—If—

“(1) the taxpayer contests an asserted liability,

“(2) the taxpayer transfers money or other property to provide for the satisfaction of the asserted liability,

1 “(3) the contest with respect to the asserted liability
2 exists after the time of the transfer, and

3 “(4) but for the fact that the asserted liability is con-
4 tested, a deduction or credit would be allowed for the tax-
5 able year of the transfer (or for an earlier taxable year),
6 then the deduction or credit shall be allowed for the taxable
7 year of the transfer.”

8 (2) Section 43 of the Internal Revenue Code of
9 1939 (relating to period for which deductions and
10 credits taken) is amended by adding at the end thereof
11 the following new sentence: “If—

12 “(1) the taxpayer contests an asserted liability,

13 “(2) the taxpayer transfers money or other prop-
14 erty to provide for the satisfaction of the asserted
15 liability,

16 “(3) the contest with respect to the asserted liability
17 exists after the time of the transfer, and

18 “(4) but for the fact that the asserted liability is
19 contested, a deduction or credit would be allowed for
20 the taxable year of the transfer (or for an earlier tax-
21 able year),

22 then the deduction or credit shall be allowed for the taxable
23 year of the transfer.”

1 (b) *EFFECTIVE DATES.*—*Except as provided in sub-*
2 *sections (c) and (d)—*

3 (1) *the amendment made by subsection (a)(1)*
4 *shall apply to taxable years beginning after December*
5 *31, 1953, and ending after August 16, 1954, and*

6 (2) *the amendment made by subsection (a)(2)*
7 *shall apply to taxable years to which the Internal*
8 *Revenue Code of 1939 applies.*

9 (c) *ELECTION AS TO TRANSFERS IN TAXABLE*
10 *YEARS BEGINNING BEFORE JANUARY 1, 1964.—*

11 (1) *The amendments made by subsection (a) shall*
12 *not apply to any transfer of money or other property*
13 *described in subsection (a) made in a taxable year*
14 *beginning before January 1, 1964, if the taxpayer elects,*
15 *in the manner provided by regulations prescribed by the*
16 *Secretary of the Treasury or his delegate, to have this*
17 *paragraph apply. Such an election—*

18 (A) *must be made within one year after the*
19 *date of the enactment of this Act,*

20 (B) *may not be revoked after the expiration of*
21 *such one-year period, and*

22 (C) *shall apply to all transfers described in*

1 the first sentence of this paragraph (other than
2 transfers described in paragraph (2)).

3 In the case of any transfer to which this paragraph
4 applies, the deduction or credit shall be allowed only for
5 the taxable year in which the contest with respect to such
6 transfer is settled.

7 (2) Paragraph (1) shall not apply to any transfer
8 if the assessment of any deficiency which would result
9 from the application of the election in respect of such
10 transfer is, on the date of the election under paragraph
11 (1), prevented by the operation of any law or rule of
12 law.

13 (3) If the taxpayer makes an election under para-
14 graph (1), and if, on the date of such election, the
15 assessment of any deficiency which results from the appli-
16 cation of the election in respect of any transfer is not
17 prevented by the operation of any law or rule of law,
18 the period within which assessment of such deficiency may
19 be made shall not expire earlier than 2 years after the
20 date of the enactment of this Act.

21 (d) CERTAIN OTHER TRANSFERS IN TAXABLE
22 YEARS BEGINNING BEFORE JANUARY 1, 1964.—The
23 amendments made by subsection (a) shall not apply to any
24 transfer of money or other property described in subsection

1 (a) made in a taxable year beginning before January 1,
 2 1964, if—

3 (1) no deduction or credit has been allowed in
 4 respect of such transfer for any taxable year before the
 5 taxable year in which the contest with respect to such
 6 transfer is settled, and

7 (2) refund or credit of any overpayment which
 8 would result from the application of such amendments
 9 to such transfer is prevented by the operation of any
 10 law or rule of law.

11 In the case of any transfer to which this subsection applies,
 12 the deduction or credit shall be allowed for the taxable year
 13 in which the contest with respect to such transfer is settled.

14 (98)Page 108, line 4, strike out [215] and insert: 225

15 (99)Page 112, strike out lines 12 to 16, inclusive.

16 (100)Page 112, strike out lines 17 to 22, inclusive, and
 17 insert:

18 (c) *EFFECTIVE DATE.*—The amendments made by sub-
 19 sections (a) and (b) shall apply to payments made after
 20 December 31, 1963, on account of sales or exchanges of
 21 property occurring after June 30, 1963, other than any
 22 sale or exchange made pursuant to a binding written con-
 23 tract (including an irrevocable written option) entered into
 24 before July 1, 1963.

1 (101)Page 113, line 1, strike out [216] and insert: 226

2 (102)Page 114, lines 23 and 24, strike out [, plus the
3 interest described in section 543 (b) (2) (C) ,].

4 (103)Page 116, line 4, strike out [or]

5 (104)Page 116, line 6, strike out [obligations.] and insert:
6 *obligations, or*

7 (105)Page 116, after line 6, insert:

8 “(iii) rendering services or making facil-
9 ities available to another corporation which is
10 engaged in the lending or finance business
11 (within the meaning of this subparagraph), but
12 only if such other corporation and the corpora-
13 tion rendering services or making facilities
14 available are members of the same affiliated
15 group (as defined in section 1504).

16 (106)Page 116, line 14, strike out [or] and insert: *unless*
17 *the loans, notes, or installment obligations are evidenced or*
18 *secured by contracts of conditional sale, chattel mortgages,*
19 *or lease agreements, arising out of the sale of goods or serv-*
20 *ices in the course of the transferor's or borrower's trade or*
21 *business, or*

22 (107)Page 117, strike out all after line 14 over to and in-
23 cluding line 4 on page 118 and insert:

24 “(3) INCOME RECEIVED FROM CERTAIN AFFIL-
25 IATED CORPORATIONS.—For purposes of subsection (c)

(6)(B), in the case of a lending or finance company which meets the requirements of subsection (c)(6)(A), there shall not be treated as personal holding company income the lawful income received from a corporation which meets the requirements of subsection (c)(6) and which is a member of the same affiliated group (as defined in section 1504) of which such company is a member.

(108)Page 119, strike out lines 10 to 16, inclusive, and insert:

“(B) the sum of—

“(i) the dividends paid during the taxable year (determined under section 562),

“(ii) the dividends considered as paid on the last day of the taxable year under section 563(c) (as limited by the second sentence of section 563(b)), and

“(iii) the consent dividends for the taxable year (determined under section 565),

equals or exceeds the amount, if any, by which the personal holding company income for the taxable year (computed without regard to this paragraph and paragraph (6), and computed by including as personal holding company income copyright royalties and the adjusted income from mineral, oil,

1 *and gas royalties) exceeds 10 percent of the ordi-*
 2 *nary gross income.*

3 **(109)**Page 125, line 21, strike out **[amortization,]** and
 4 insert: *amortization of property other than tangible personal*
 5 *property which is not customarily retained by any one lessee*
 6 *for more than three years,*

7 **(110)**Page 126, line 7, strike out **[subsection (a) (3)]** and
 8 insert: *paragraph (4)*

9 **(111)**Page 128, line 2, strike out **[such royalties]** and in-
 10 sert: *mineral, oil, and gas royalties (including production*
 11 *payments and overriding royalties)*

12 **(112)**Page 137, line 9, strike out **[552,—]** and insert:
 13 552—

14 **(113)**Page 138, line 23, strike out **[1966]** and insert: *1967*

15 **(114)**Page 138, line 25, strike out **[1966]** and insert: *1967*

16 **(115)**Page 139, line 7, strike out **[class B]** and insert:
 17 *long-term*

18 **(116)**Page 139, line 9, strike out **[August 1,]** and insert:
 19 *December 31,*

20 **(117)**Page 139, line 12, strike out **[August 1,]** and insert:
 21 *December 31,*

22 **(118)**Page 139, line 18, strike out **[1965]** and insert: *1966*

23 **(119)**Page 139, line 20, strike out **[1965]** and insert: *1966*

24 **(120)**Page 140, line 4, strike out **[1966]** and insert: *1967*

- 1 (121)Page 140, line 6, strike out [class B] and insert:
2 *long-term*
- 3 (122)Page 140, line 11, strike out [August 1] and insert:
4 *December 31*
- 5 (123)Page 140, line 14, strike out [August 1] and insert:
6 *December 31*
- 7 (124)Page 140, line 23, strike out [August 1, 1963] and
8 insert: *January 1, 1964*
- 9 (125)Page 140, line 25, strike out [1967] and insert: *1968*
- 10 (126)Page 141, lines 16 and 17, strike out [August 1,
11 1963] and insert: *January 1, 1964*
- 12 (127)Page 142, line 1, strike out [or]
- 13 (128)Page 142, line 2, after “amortization” insert: , *or*
14 *depletion*
- 15 (129)Page 142, line 6, strike out all after “before” down
16 to and including “subsection” in line 7 and insert: *December*
17 *31, 1963,*
- 18 (130)Page 142, line 12, strike out [year.”] and insert:
19 *year.*
- 20 (131)Page 142, after line 12, insert:
21 “(4) *MISTAKE AS TO APPLICABILITY OF SUBSEC-*
22 *TION.—An election made under this section by a quali-*
23 *fied electing shareholder of a corporation in which such*

1 shareholder states that such election is made on the as-
 2 sumption that such corporation is a corporation referred
 3 to in paragraph (3) shall have no force or effect if it
 4 is determined that the corporation is not a corporation
 5 referred to in paragraph (3)."

6 (132)Page 144, line 1, strike out all after "before" down
 7 to and including "subsection" in line 2 and insert: *December*
 8 *31, 1963,*

9 (133) Page 144, line 18, strike out [August 1, 1963,] and
 10 insert: *January 1, 1964,*

11 (134)Page 144, line 20, strike out [July 31, 1963,] and
 12 insert: *December 31, 1963,*

13 (135)Page 144, line 22, strike out all after "but" down to
 14 and including "1963," in line 25.

15 (136)Page 145, line 6, strike out [July 31,] and insert:
 16 *December 31,*

17 (137)Page 146, line 13, strike out [or amortization] and
 18 insert: *amortization, or depletion*

19 (138)Page 147, line 7, strike out [the] and insert: *an*

20 (139)Page 147, line 8, strike out [or amortization] and
 21 insert: *amortization, or depletion*

22 (140)Page 147, line 9, strike out [July 31] and insert:
 23 *December 31*

24 (141)Page 148, strike out all after line 2 over to and
 25 including line 13 on page 153.

- 1 (142)Page 153, line 14, strike out [(k)] and insert: (j)
- 2 (143)Page 156, line 3, strike out [(l)] and insert: (k)
- 3 (144)Page 156, line 5, strike out [(g), and (j)] and
4 insert: *and (g)*
- 5 (145)Page 156, strike out lines 15, 16, and 17.
- 6 (146)Page 156, line 18, strike out [(5)] and insert: (4)
- 7 (147)Page 157, line 1, strike out [217] and insert: 227
- 8 (148)Page 161, line 13, strike out [1963] and insert: 1964
- 9 (149)Page 165, line 1, strike out [218] and insert: 228
- 10 (150)Page 165, line 8, after “OR” insert: *DOMESTIC*
- 11 (151)Page 165, strike out lines 10 and 11 and insert:
12 *(B) by inserting “or iron ore mined in the*
13 *United States,” after “coal (including lignite),”;*
- 14 (152)Page 165, line 13, strike out [631 (c) .] and insert:
15 *631(c); and*
- 16 (153)Page 165, after line 13, insert:
17 *(D) by adding at the end thereof the following*
18 *new sentence:*
- 19 *“This subsection shall not apply to any disposal of iron ore—*
20 *“(1) to a person whose relationship to the person*
21 *disposing of such iron ore would result in the disallow-*
22 *ance of losses under section 267 or 707(b), or*
23 *“(2) to a person owned or controlled directly or*
24 *indirectly by the same interests which own or control the*
25 *person disposing of such iron ore.”*

1 (154)Page 165, line 17, after “OR” insert: *DOMESTIC*

2 (155)Page 166, line 7, after “OR” insert: *DOMESTIC*

3 (156)Page 166, in the first line after line 10, after “or”
4 where it appears the second time insert: *domestic*

5 (157)Page 166, line 13, after “OR” insert: *DOMESTIC*

6 (158)Page 166, in the first line after line 16, after “or”
7 insert: *domestic*

8 (159)Page 166, line 18, after “ “or” insert: *domestic*

9 (160)Page 167, after line 3, insert:

10 (7) *Section 211(a)(3) of the Social Security Act*
11 *is amended by striking out clause (B) and inserting in*
12 *lieu thereof “(B) from the cutting of timber, or the dis-*
13 *posal of timber, coal, or iron ore, if section 631 of the*
14 *Internal Revenue Code of 1954 applies to such gain or*
15 *loss,”.*

16 (161)Page 167, strike out lines 4, 5, and 6 and insert:

17 (c) *EFFECTIVE DATE.—The amendments made by this*
18 *section shall apply with respect to amounts received or ac-*
19 *crued in taxable years beginning after December 31, 1963,*
20 *attributable to iron ore mined in such taxable years.*

21 (162)Page 167, after line 6, insert:

22 *SEC. 229. INSURANCE COMPANIES.*

23 (a) *CERTAIN MUTUALIZATION DISTRIBUTIONS MADE*
24 *IN 1962.—*

25 (1) *DEDUCTION FOR CERTAIN MUTUALIZATION*

1 *DISTRIBUTIONS.*—Section 809(d)(11) (relating to
 2 *deductions in computing gain from operations in the*
 3 *case of certain mutualization distributions)* is amended
 4 *by striking out “and 1961” and inserting in lieu thereof*
 5 *“1961, and 1962”.*

6 (2) *APPLICATION OF SECTION 815.*—Section
 7 809(g)(3) (relating to application of section 815 to
 8 *certain mutualization distributions)* is amended by strik-
 9 *ing out “or 1961” and inserting in lieu thereof “1961,*
 10 *or 1962”.*

11 (b) *ACCRUAL OF BOND DISCOUNT.*—

12 (1) *LIFE INSURANCE COMPANIES.*—Section 818
 13 (b) (relating to amortization of premium and accrual
 14 of discount) is amended by adding at the end thereof
 15 the following new paragraph:

16 “(3) *EXCEPTION.*—For taxable years beginning
 17 after December 31, 1962, no accrual of discount shall
 18 be required under paragraph (1) on any bond (as
 19 defined in section 171(d)), except in the case of discount
 20 which is—

21 “(A) interest to which section 103 applies, or

22 “(B) original issue discount (as defined in
 23 section 1232(b)).

24 For purposes of section 805(b)(3)(A), the current
 25 earnings rate for any taxable year beginning before

1 *January 1, 1963, shall be determined as if the preceding*
 2 *sentence applied to such taxable year."*

3 (2) *MUTUAL INSURANCE COMPANIES.—Section*
 4 *822(d)(2) (relating to amortization of premium and*
 5 *accrual of discount) is amended by adding at the end*
 6 *thereof the following new sentence: "For taxable years*
 7 *beginning after December 31, 1962, no accrual of dis-*
 8 *count shall be required under this paragraph on any bond*
 9 *(as defined in section 171(d))."*

10 (c) *CONTRIBUTIONS TO QUALIFIED, ETC., PLANS.—*
 11 *Section 832(c)(10) (relating to deductions allowed in com-*
 12 *puting taxable income of certain insurance companies) is*
 13 *amended by inserting before the semicolon at the end thereof*
 14 *"and in part I of subchapter D (sec. 401 and following,*
 15 *relating to pension, profit-sharing, stock bonus plans, etc.)."*

16 (d) *EFFECTIVE DATES.—The amendment made by sub-*
 17 *section (a) shall apply to taxable years beginning after De-*
 18 *cember 31, 1961. The amendment made by subsection (c)*
 19 *shall apply to taxable years beginning after December 31,*
 20 *1953, and ending after August 16, 1954.*

21 (163)Page 167, after line 6, insert:

22 *SEC. 230. REGULATED INVESTMENT COMPANIES.*

23 (a) *TIME FOR MAILING CERTAIN NOTICES TO*
 24 *SHAREHOLDERS.—The following provisions (relating to*
 25 *notices to shareholders by regulated investment companies)*

1 are amended by striking out "30 days", wherever appearing
 2 therein, and inserting in lieu thereof "45 days":

3 (1) Section 852(b)(3)(C),

4 (2) Section 852(b)(3)(D)(i),

5 (3) Section 853(c),

6 (4) Section 854(b)(2), and

7 (5) Section 855(c).

8 (b) CERTAIN REDEMPTIONS BY UNIT INVESTMENT
 9 TRUSTS.—Section 852 (relating to taxation of regulated in-
 10 vestment companies and their shareholders) is amended by
 11 adding at the end thereof the following new subsection:

12 "(d) DISTRIBUTIONS IN REDEMPTION OF INTERESTS
 13 IN UNIT INVESTMENT TRUSTS.—In the case of a unit
 14 investment trust—

15 "(1) which is registered under the Investment Com-
 16 pany Act of 1940 and issues periodic payment plan
 17 certificates (as defined in such Act), and

18 "(2) substantially all of the assets of which consist of
 19 securities issued by a management company (as defined
 20 in such Act),

21 section 562(c) (relating to preferential dividends) shall not
 22 apply to a distribution by such trust to a holder of an interest
 23 in such trust in redemption of part or all of such interest,
 24 with respect to the net capital gain of such trust attributable
 25 to such redemption."

1 (c) *EFFECTIVE DATES.*—The amendments made by
 2 subsection (a) shall apply to taxable years of regulated invest-
 3 ment companies ending on or after the date of the enactment
 4 of this Act. The amendment made by subsection (b) shall
 5 apply to taxable years of regulated investment companies
 6 ending after December 31, 1963.

7 (164)Page 167, after line 6, insert:

8 *SEC. 231. FOREIGN TAX CREDIT WITH RESPECT TO CER-*
 9 *TAIN FOREIGN MINERAL INCOME.*

10 (a) *LIMITATION ON AMOUNT OF FOREIGN TAXES TO*
 11 *BE TAKEN INTO ACCOUNT.*—Section 901 (relating to taxes
 12 of foreign countries and possessions of the United States) is
 13 amended—

14 (1) by redesignating subsection (d) as (e); and
 15 (2) by inserting after subsection (c) the following
 16 new subsection:

17 “(d) *FOREIGN TAXES ON MINERAL INCOME.*—

18 “(1) *REDUCTION OF AMOUNTS TO BE TAKEN*
 19 *INTO ACCOUNT.*—

20 “(A) *PER-COUNTRY LIMITATION TAXPAY-*
 21 *ERS.*—In the case of a taxpayer to whom the limita-
 22 tion provided by section 904(a)(1) applies for the
 23 taxable year, the amount of taxes paid or accrued

during the taxable year to any foreign country with respect to mineral income which would (but for this paragraph) be taken into account for purposes of this subpart shall be reduced by the amount (if any) by which—

“(i) the amount of such taxes (or, if smaller, the amount of the tax which would be computed under this chapter with respect to such income determined without the deduction allowed under section 613), exceeds

“(ii) the amount of the tax computed under this chapter with respect to such income.

“(B) OVERALL LIMITATION TAXPAYERS.—

In the case of a taxpayer to whom the limitation provided by section 904(a)(2) applies for the taxable year, the amount of taxes paid or accrued during the taxable year to all foreign countries with respect to mineral income which would (but for this paragraph) be taken into account for purposes of this subpart shall be reduced by the amount (if any) by which—

“(i) the amount of such taxes (or, if smaller, the amount of the tax which would be

1 *computed under this chapter with respect to*
 2 *such income determined without the deduction*
 3 *allowed under section 613), exceeds*

4 “(ii) *the amount of tax computed under*
 5 *this chapter with respect to such income.*

6 “(2) *MINERAL INCOME.—*

7 “(A) *IN GENERAL.—For purposes of this sub-*
 8 *section, the term ‘mineral income’ means income de-*
 9 *rived from sources without the United States from*
 10 *mineral activities, including, but not limited to—*

11 “(i) *dividends received from corporations*
 12 *in which 5 percent or more of the voting stock*
 13 *is owned directly or indirectly by the taxpayer,*
 14 *to the extent such dividends are attributable to*
 15 *mineral activities, and*

16 “(ii) *that portion of the taxpayer’s distribu-*
 17 *tive share of income of partnerships attributable*
 18 *to mineral activities.*

19 “(B) *MINERAL ACTIVITIES.—For purposes of*
 20 *subparagraph (A), the term ‘mineral activities’ in-*
 21 *cludes the extraction of minerals from mines, wells,*
 22 *or other natural deposits, the processing of such*
 23 *minerals into their primary products, and the trans-*
 24 *portation, distribution, or sale of such minerals or*
 25 *primary products.”*

1 (b) *EFFECTIVE DATE.*—The amendments made by sub-
 2 section (a) shall apply with respect to taxable years be-
 3 ginning after December 31, 1963.

4 (165)Page 167, after line 6, insert:

5 *SEC. 232. AMOUNTS RECEIVED FROM EMPLOYER ON SALE*
 6 *OF RESIDENCE OF EMPLOYEE IN CONNEC-*
 7 *TION WITH TRANSFER TO NEW PLACE OF*
 8 *WORK.*

9 (a) *TREATMENT OF CERTAIN AMOUNTS RECEIVED*
 10 *FROM EMPLOYER ON SALE OF RESIDENCE OF EMPLOYEE*
 11 *IN CONNECTION WITH TRANSFER TO NEW PLACE OF*
 12 *WORK.—*

13 (1) *Part I of subchapter O of chapter 1 (relat-*
 14 *ing to determination of amount of and recognition of gain*
 15 *or loss) is amended by adding at the end thereof the*
 16 *following new section:*

17 *“SEC. 1003. AMOUNTS RECEIVED FROM EMPLOYER ON*
 18 *SALE OF RESIDENCE OF EMPLOYEE IN*
 19 *CONNECTION WITH TRANSFER TO NEW*
 20 *PLACE OF WORK.*

21 “(a) *GENERAL RULE.—If—*

22 “(1) *property (in this section called ‘old resi-*
 23 *dence’)* used by the taxpayer as his principal resi-
 24 *dence is sold by the taxpayer or his spouse pursuant*

1 to a sales contract entered into within the forced sale
2 period for the old residence, and

3 “(2) the taxpayer’s employer, not later than one
4 year after the date such sales contract was entered into,
5 pays part or all of the sale differential on the old resi-
6 dence,

7 then, for purposes of this chapter, the amount so paid shall
8 be treated by the taxpayer or his spouse (as the case may be)
9 as an additional amount realized on the sale of the old resi-
10 dence to the extent that it does not exceed the lesser of (A)
11 the sale differential, or (B) 15 percent of the gross sales
12 price of the old residence.

13 “(b) LIMITATIONS.—

14 “(1) PERIOD OF EMPLOYMENT.—This section shall
15 not apply unless, for the six-month period ending on the
16 day on which the taxpayer commences work at the new
17 principal place of work, he was an employee of the
18 employer.

19 “(2) LOCATION OF NEW PLACE OF WORK.—This
20 section shall not apply unless the taxpayer’s new prin-
21 cipal place of work—

22 “(A) is at least 20 miles farther from the old
23 residence than was his former principal place of
24 work, or

1 “(B) if he had no former principal place of
2 work, is at least 20 miles from the old residence.

3 “(c) *DEFINITIONS; SPECIAL RULES.*—For purposes
4 of this section—

5 “(1) *FORCED SALE PERIOD.*—The term ‘forced
6 sale period’ means the period beginning 90 days be-
7 fore, and ending 180 days after, the date on which the
8 taxpayer commences work as an employee at the new
9 principal place of work.

10 “(2) *SALE DIFFERENTIAL.*—The term ‘sale dif-
11 ferential’ means the amount by which—

12 “(A) the appraised value of the old residence,
13 exceeds

14 “(B) the gross sales price of the old residence
15 reduced by the selling commissions, legal fees, and
16 other expenses incident to the transfer of ownership
17 of the old residence.

18 “(3) *APPRAISED VALUE.*—The appraised value of
19 the old residence is the average of two or more appraisals
20 of fair market value made, on or after the valuation date
21 and on or before the date on which the sales contract is
22 entered into, by independent real estate appraisers se-
23 lected by the employer, but shall not exceed the fair mar-

1 *ket value. Determination of appraised value shall be*
2 *made as of the valuation date.*

3 “(4) *VALUATION DATE.*—The term ‘valuation
4 *date’ means the date selected by the employer for pur-*
5 *poses of determining the amount to be paid with re-*
6 *spect to the sale differential. Such date shall be on or*
7 *before the date the sales contract is entered into and*
8 *within the forced sale period.*

9 “(5) *EMPLOYER.*—The term ‘employer’ means the
10 *person who employs the taxpayer as an employee at the*
11 *new principal place of work. Such term includes any*
12 *predecessor or successor corporation and any parent cor-*
13 *poration or subsidiary corporation. For purposes of the*
14 *preceding sentence, the determination of whether a cor-*
15 *poration is a parent corporation or a subsidiary corpora-*
16 *tion shall be made under subsections (e) and (f) of*
17 *section 425 but by reference to the date on which the*
18 *taxpayer commences work as an employee at the new*
19 *principal place of work (in lieu of as of the time of the*
20 *granting of the option).*

21 “(6) *EXCHANGES.*—An exchange by the taxpayer
22 *or his spouse of an old residence for other property shall*
23 *be treated as a sale.*

24 “(7) *TENANT-STOCKHOLDER IN A COOPERATIVE*
25 *HOUSING CORPORATION.*—References to property used

by the taxpayer as his principal residence includes stock held by a tenant-stockholder (as defined in section 216) in a cooperative housing corporation (as defined in such section) if the house or apartment which the taxpayer was entitled to occupy as such stockholder was used by him as his principal residence.

“(d) *REGULATIONS.*—The Secretary or his delegate shall prescribe such regulations as may be necessary to carry out the purposes of this section.”

(2) The table of sections for part I of subchapter O of chapter 1 is amended by adding at the end thereof the following:

“Sec. 1003. Amounts received from employer on sale of residence of employee in connection with transfer to new place of work.”

(b) *EFFECTIVE DATE.*—The amendments made by subsection (a) shall apply to amounts paid with respect to sales contracts entered into after December 31, 1963, in taxable years ending after such date.

(166)Page 167, strike out all after line 6 over to and including line 20 on page 205.

(167)Page 205, line 21, strike out [220] and insert: 233

(168)Page 220, line 9, strike out [221] and insert: 234

(169)Page 225, line 2, strike out all after “income’ ” down to and including “1964,” in line 10 and insert: *means*

1 (170)Page 232, strike out all after line 23 over to and in-
 2 cluding line 2 on page 233 and insert:

3 “(B) an amount equal to 25 percent of the
 4 excess of the net long-term capital gain over the net
 5 short-term capital loss.

6 (171)Page 234, after line 9, insert:

7 (c) AMENDMENT OF SECTION 144.—Section 144 (re-
 8 lating to election of standard deduction) is amended by add-
 9 ing after subsection (c) (as added by 112(c)(2) of this
 10 Act) the following new subsection:

11 “(d) INDIVIDUALS ELECTING INCOME AVERAG-
 12 ING.—In the case of a taxpayer who chooses to have the
 13 benefits of part I of subchapter Q (relating to income aver-
 14 aging) for the taxable year—

15 “(1) subsection (a) shall not apply for such taxable
 16 year, and

17 “(2) the standard deduction shall be allowed if the
 18 taxpayer so elects in his return for such taxable year.

19 The Secretary or his delegate shall by regulations prescribe
 20 the manner of signifying such election in the return. If the
 21 taxpayer on making his return fails to signify, in the manner
 22 so prescribed, his election to take the standard deduction, such
 23 failure shall be considered his election not to take the standard
 24 deduction.”

1 (172)Page 234, line 10, strike out [(c)] and insert: (d)

2 (173)Page 235, line 21, strike out [(d)] and insert: (e)

3 (174)Page 236, line 14, strike out [(e)] and insert: (f)

4 (175)Page 237, line 5, strike out [(f)] and insert: (g)

5 (176)Page 238, line 12, after "Act" insert: *and (if he*
 6 *elects to have subsection (e) of such section 1307 apply)*
 7 *section 170(b)(5) of such Code as amended by this Act*
 8 *shall not apply to charitable contributions paid in such tax-*
 9 *able year*

10 (177)Page 238, after line 12, insert:

11 **SEC. 235. SMALL BUSINESS CORPORATIONS.**

12 (a) OWNERSHIP OF CERTAIN STOCK DISREGARD-
 13 ED.—Section 1371 (relating to definition of small business
 14 corporation) is amended by adding at the end thereof the
 15 following new subsection:

16 "(d) OWNERSHIP OF CERTAIN STOCK.—For purposes
 17 of subsection (a), a corporation shall not be considered a
 18 member of an affiliated group at any time during any tax-
 19 able year by reason of the ownership of stock in another
 20 corporation if such other corporation—

21 "(1) has not begun business at any time on or after
 22 the date of its incorporation and before the close of such
 23 taxable year, and

1 “(2) does not have taxable income for the period
2 included within such taxable year.”

3 (b) CERTAIN DISTRIBUTIONS OF MONEY AFTER
4 CLOSE OF TAXABLE YEAR.—Section 1375 (relating to
5 special rules applicable to distributions of electing small
6 business corporations) is amended by adding at the end
7 thereof the following new subsection:

8 “(e) CERTAIN DISTRIBUTIONS AFTER CLOSE OF
9 TAXABLE YEAR.—

10 “(1) IN GENERAL.—For purposes of this chapter,
11 if—

12 “(A) a corporation makes a distribution of
13 money to its shareholders on or before the 15th day
14 of the third month following the close of a taxable
15 year with respect to which it was an electing small
16 business corporation, and

17 “(B) such distribution is made pursuant to a
18 resolution of the board of directors of the corpora-
19 tion, adopted before the close of such taxable year, to
20 distribute to its shareholders all or a part of the
21 proceeds of one or more sales of capital assets, or of
22 property described in section 1231(b), made dur-
23 ing such taxable year,

24 such distribution shall, at the election of the corporation,

1 *be treated as a distribution of money made on the last day*
2 *of such taxable year.*

3 “(2) *SHAREHOLDERS.*—An election under para-
4 *graph (1) with respect to any distribution may be made*
5 *by a corporation only if each person who is a shareholder*
6 *on the day the distribution is received—*

7 “(A) *owns the same proportion of the stock*
8 *of the corporation on such day as he owned on the*
9 *last day of the taxable year of the corporation pre-*
10 *ceding the distribution, and*

11 “(B) *consents to such election at such time and*
12 *in such manner as the Secretary or his delegate*
13 *shall prescribe by regulations.*

14 “(3) *MANNER AND TIME OF ELECTION.*—An elec-
15 *tion under paragraph (1) shall be made in such manner*
16 *as the Secretary or his delegate shall prescribe by regu-*
17 *lations. Such election shall be made not later than the*
18 *time prescribed by law for filing the return for the taxable*
19 *year during which the sale was made (including ex-*
20 *tensions thereof) except that, with respect to any taxable*
21 *year ending on or before the date of the enactment of*
22 *the Revenue Act of 1964, such election shall be made*
23 *within 120 days after such date.”*

24 “(c) *EFFECTIVE DATES.*—The amendment made by sub-

1 section (a) shall apply with respect to taxable years of cor-
 2 porations beginning after December 31, 1962. The amend-
 3 ment made by subsection (b) shall apply with respect to
 4 taxable years of corporations beginning after December 31,
 5 1957.

6 (178)Page 238, line 13, strike out [222] and insert: 236

7 (179)Page 246, line 20, strike out [223] and insert: 237

8 (180)Page 250, strike out lines 5 to 10, inclusive, and
 9 insert:

10 *This paragraph shall not apply to the taxable year of a*
 11 *corporation if—*

12 “(A) such corporation is the only component
 13 member of such controlled group on the December
 14 31 included in such corporation’s taxable year
 15 which has taxable income for a taxable year includ-
 16 ing such December 31, or

17 “(B) such corporation’s surtax exemption is
 18 disallowed for such taxable year under any provision
 19 of this subtitle.

20 (181)Page 254, line 5, strike out [31,] and insert: 31

21 (182) Page 255, strike out all after line 24 over to and in-
 22 cluding line 19 on page 256 and insert:

1 “(g) *TOLLING OF STATUTE OF LIMITATIONS.*—In any
 2 case in which a controlled group of corporations makes an
 3 election or termination under this section, the statutory
 4 period—

5 “(1) for assessment of any deficiency against a cor-
 6 poration which is a component member of such group
 7 for any taxable year, to the extent such deficiency is at-
 8 tributable to the application of this part, shall not expire
 9 before the expiration of one year after the date such elec-
 10 tion or termination is made; and

11 “(2) for allowing or making credit or refund of
 12 any overpayment of tax by a corporation which is a
 13 component member of such group for any taxable year,
 14 to the extent such credit or refund is attributable to the
 15 application of this part, shall not expire before the expi-
 16 ration of one year after the date such election or termi-
 17 nation is made.

18 (183)Page 262, line 11, strike out all after “(2)” down to
 19 and including “individual” in line 13.

20 (184)Page 262, line 22, strike out **[corporation;]** and
 21 insert: *corporation,*

22 (185)Page 267, line 20, strike out **[The]** and insert: *Such*

1 (186)Page 270, after line 17, insert:

2 “(C) If stock is owned by a person within the
3 meaning of subsection (d) and such ownership
4 results in the corporation being a component mem-
5 ber of a controlled group, such stock shall not be
6 treated as excluded stock under subsection (c)(2),
7 if by reason of treating such stock as excluded stock
8 the result is that such corporation is not a component
9 member of a controlled group of corporations.

10 (187)Page 270, line 21, after “of” insert: *a corporation*
11 *which is a member of*

12 (188)Page 270, line 23, strike out [a] the second time it
13 appears and insert: *such*

14 (189)Page 274, line 17, strike out [at least] and insert:
15 *more than*

16 (190)Page 275, strike out lines 3 to 7, inclusive.

17 (191)Page 275, line 8, strike out [(d)] and insert: *(c)*

18 (192)Page 276, strike out lines 3 to 16, inclusive, and
19 insert:

20 *income tax) is amended by striking out “then such deduc-*
21 *tion, credit, or other allowance shall not be allowed” at*
22 *the end of the first sentence and inserting in lieu thereof*
23 *“then the Secretary or his delegate may disallow such*
24 *deduction, credit, or other allowance”.*

1 (193)Page 277, after line 17, insert:

2 SEC. 238. VALIDITY OF TAX LIENS AGAINST MORTGA-
3 GEES, PLEDGEES, AND PURCHASERS OF
4 MOTOR VEHICLES.

5 (a) MORTGAGEES, PLEDGEES, AND PURCHASERS
6 WITHOUT ACTUAL NOTICE OR KNOWLEDGE OF LIEN.—
7 Section 6323(c) (relating to exception in case of securities)
8 is amended—

9 (1) by striking out the heading and inserting in lieu
10 thereof “EXCEPTION IN CASE OF SECURITIES AND
11 MOTOR VEHICLES.—”;

12 (2) by striking out “a security, as defined in para-
13 graph (2) of this subsection,” in paragraph (1) and
14 inserting in lieu thereof “a security (as defined in para-
15 graph (2)) or a motor vehicle (as defined in paragraph
16 (3))”;

17 (3) by inserting after “such security” in paragraph
18 (1) “or such motor vehicle”; and

19 (4) by adding at the end thereof the following new
20 paragraph:

21 “(3) DEFINITION OF MOTOR VEHICLE.—As used
22 in this subsection, the term ‘motor vehicle’ means a ve-
23 hicle (other than a house trailer) which is registered
24 for highway use under the laws of any State or foreign
25 country.”

1 **(b) LIENS FOR ESTATE AND GIFT TAXES.**—Section
 2 6324 (relating to ~~s~~pecial liens for estate and gift taxes)
 3 is amended—

4 (1) by striking out “(relating to transfers of se-
 5 curities)” in subsections (a) and (b) and inserting in
 6 lieu thereof “(relating to securities and motor vehi-
 7 cles)”; and

8 (2) by striking out subsection (c) and inserting
 9 in lieu thereof the following:

10 **“(c) EXCEPTION IN CASE OF SECURITIES AND MOTOR**
 11 **VEHICLES.**—The lien imposed by subsection (a) or (b)
 12 shall not be valid with respect to a security (as defined in
 13 section 6323(c)(2)) or a motor vehicle (as defined in
 14 section 6323(c)(3)) as against any mortgagee, pledgee, or
 15 purchaser of any such security or motor vehicle, for an ade-
 16 quate and full consideration in money or money’s worth, if
 17 at the time of such mortgage, pledge, or purchase such mort-
 18 gagee, pledgee, or purchaser is without notice or knowledge
 19 of the existence of such lien.”

20 **(c) EFFECTIVE DATE.**—The amendments made by this
 21 section shall apply only with respect to mortgages, pledges,
 22 and purchases made after the date of the enactment of this
 23 Act.

1 (194)Page 277, after line 17, insert:

2 SEC. 239. EARNED INCOME OF CITIZENS OF THE UNITED
3 STATES FROM SOURCES WITHOUT THE
4 UNITED STATES.

5 (a) REDUCTION OF CEILING ON EXEMPTION.—Sec-
6 tion 911(c)(1) (relating to earned income from sources
7 without the United States) is amended—

8 (1) by striking out, in subparagraph (A) thereof,
9 “\$20,000” and inserting in lieu thereof “\$4,000”; and

10 (2) by striking out, in subparagraph (B) thereof,
11 “\$35,000” and inserting in lieu thereof “\$6,000”.

12 (b) EFFECTIVE DATE.—The amendments made by
13 subsection (a) shall be applicable only with respect to taxable
14 years beginning after December 31, 1963.

15 (195)Page 277, after line 17, insert:

16 SEC. 240. HEADS OF HOUSEHOLDS.

17 (a) Section 1(b) (relating to definition of head of
18 household) is amended by striking out the word “either—”
19 in the first sentence of paragraph (2) and subparagraph
20 (A) and subparagraph (B) of paragraph (2) of subsec-
21 tion (b) and inserting in lieu thereof: “maintains a household
22 which constitutes for such taxable year the principal place

1 of abode of any person who is a dependent of the taxpayer
 2 if the taxpayer is entitled to a deduction for the taxable year
 3 for such person under section 151.”

4 (b) The amendments made by subsection (a) shall apply
 5 to taxable years beginning after December 31, 1963.

6 (196)Page 277, after line 17, insert:

7 **SEC. 241. LOSSES ARISING FROM CONFISCATION OF**
 8 **PROPERTY BY CUBA.**

9 Section 165 (relating to losses) is amended by relettering
 10 subsection (i) as subsection (j) and by adding the following
 11 new subsection (i):

12 “(i) **PROPERTY CONFISCATED BY CUBA.**—For pur-
 13 poses of subsection (c)(3), losses of property which arise
 14 from expropriation, intervention in, or confiscation by Cuba
 15 shall be deemed to be losses from ‘other casualty’.”

16 (197)Page 277, after line 17, insert:

17 **SEC. 242. CREDIT OR REFUND OF SELF-EMPLOYMENT**
 18 **TAX.**

19 (a) Chapter 65 (relating to abatements, credits, and re-
 20 funds) is amended by adding at the end of subchapter B
 21 thereof, the following new section:

1 "SEC. 6424. CREDIT OR REFUND OF SELF-EMPLOYMENT
2 TAX IN CERTAIN CASES.

3 "If, by reason of an agreement made pursuant to section
4 218 of the Social Security Act, the self-employment income
5 (as defined in section 1402(b)) of any individual is, for
6 any year with respect to which the period of limitation for
7 filing claim for credit or refund has expired, different from
8 what it would be but for such agreement, then, notwith-
9 standing any other law or rule of law (other than section
10 7122 relating to compromises), such individual shall be
11 entitled to a credit or refund of so much of the tax imposed
12 by chapter 2 (relating to tax on self-employment income)
13 as was imposed upon such difference, but only if claim there-
14 for is filed within 3 years from the date on which the agree-
15 ment under such section 218 was entered into."

16 (b) The table of sections for subchapter B of chapter
17 65 is amended by adding at the end thereof, the following:

"Sec. 6424. Credit or refund of self-employment tax in cer-
tain cases."

1 (198)Page 277, after line 17, insert:

2 SEC. 243. EXTENSION OF TIME FOR PAYMENT OF ESTATE
3 TAX ON VALUE OF REVERSIONARY OR RE-
4 MAINDER INTEREST IN PROPERTY.

5 (a) EXTENSION UNDER 1954 CODE.—Section 6163

6 (b) (relating to extension of time for paying estate tax on
7 value of reversionary or remainder interest in property to
8 prevent undue hardship) is amended by striking out “not in
9 excess of 2” and inserting in lieu thereof “or periods not in
10 excess of 3”.

11 (b) EXTENSION UNDER 1939 CODE.—Section 925 of
12 the Internal Revenue Code of 1939 (relating to periods of
13 extension of time for paying estate tax attributable to future
14 interests) is amended by striking out “not in excess of 2” and
15 inserting in lieu thereof “or periods not in excess of 3”.

16 (c) EFFECTIVE DATE.—

17 (1) The amendment made by subsection (a) shall
18 apply in the case of any reversionary or remainder in-
19 terest only if the time for payment of the tax under chap-
20 ter 11 of the Internal Revenue Code of 1954 attributable
21 to such interest, including any extensions thereof, has not
22 expired on the date of the enactment of this Act.

23 (2) The amendment made by subsection (b) shall

1 *apply in the case of any reversionary or remainder in-*
 2 *terest only if the time for payment of the tax under chap-*
 3 *ter 3 of the Internal Revenue Code of 1939 has not ex-*
 4 *pired on the date of the enactment of this Act.*

5 **(199)**Page 277, after line 17, insert:

6 **SEC. 244. CROP INSURANCE PROCEEDS.**

7 *Section 451 (relating to general rule for taxable year of*
 8 *inclusion) is amended by adding the following subsection:*

9 *“(c) In the case of insurance proceeds received as a*
 10 *result of destruction or damage to crops, a taxpayer report-*
 11 *ing on the cash basis of accounting may elect to include such*
 12 *proceeds in income for the year following the year of de-*
 13 *struction or damage provided he establishes to the satisfaction*
 14 *of the Secretary or his delegate that, under his practice,*
 15 *income from such crops would not have been reported in the*
 16 *year in which raised.”*

17 **(200)**Page 277, after line 17, insert:

18 **SEC. 245. TRANSPORTATION OF DISABLED INDIVIDUAL**
 19 **TO AND FROM WORK.**

20 *(a) DEDUCTION ALLOWED FOR EXPENSES OF TRANS-*
 21 *PORTATION OF DISABLED INDIVIDUALS TO AND FROM*
 22 *WORK.—Part VII of subchapter B of chapter 1 (relating to*
 23 *additional itemized deductions for individuals), as amended*

1 by sections 213(a)(1) and 214(a) of this Act, is further
 2 amended by redesignating section 219 as section 220 and
 3 by inserting after section 218 the following new section:

4 “SEC. 219. TRANSPORTATION OF DISABLED INDIVIDUAL
 5 TO AND FROM WORK.

6 “(a) *GENERAL RULE.*—In the case of a disabled indi-
 7 vidual, there shall be allowed as a deduction expenses paid
 8 during the taxable year for transportation to and from work
 9 to the extent that such expenses do not exceed \$600.

10 “(b) *DISABLED INDIVIDUAL DEFINED.*—For purposes
 11 of subsection (a), the term ‘disabled individual’ means an
 12 individual who is blind (as defined in section 151(d)(3))
 13 or who has lost the use of a leg, both legs, both arms, or is
 14 otherwise disabled, to such an extent that he is unable during
 15 the entire taxable year to use, without undue hardship or
 16 danger, a streetcar, bus, subway, train, or similar form of
 17 public transportation, as a means of traveling to and from
 18 work. A taxpayer claiming a deduction under this section
 19 shall submit such proof that he is a disabled individual as
 20 the Secretary of the Treasury or his delegate may by regu-
 21 lations prescribe. The regulations so prescribed shall include
 22 the following provisions:

23 “(1) Proof of disability shall be certified by a
 24 physician authorized to do so by any county (or equiva-
 25 lent) medical society.

1 “(2) The certifying physician shall specify the na-
2 ture, cause, and physically limiting effects of the
3 disability.”

4 (b) *TECHNICAL AMENDMENT.*—The table of sections
5 for part VII of subchapter B of chapter 1 (as amended by
6 section 213(a)(2) of this Act) is further amended by strik-
7 ing out—

 “Sec. 219. Cross references.”

8 and inserting in lieu thereof the following:

 “Sec. 219. Transportation of disabled individual to and
 from work.

 “Sec. 220. Cross references.”

9 (c) *EFFECTIVE DATE.*—The amendments made by this
10 section shall apply only with respect to taxable years ending
11 after the date of the enactment of this Act.

12 (201)Page 277, after line 17, insert:

13 SEC. 246. *ADDITIONAL PERSONAL EXEMPTIONS FOR DIS-*
14 *ABILITY.*

15 (a) *IN GENERAL.*—Section 151 (relating to allowance
16 of deductions for personal exemptions) is amended by adding
17 at the end thereof the following new subsection:

18 “(f) *ADDITIONAL EXEMPTIONS FOR DISABILITY.*—

19 “(1) *FOR TAXPAYER.*—An additional exemption of
20 \$600 for the taxpayer if he is a disabled individual.

21 “(2) *FOR SPOUSE.*—An additional exemption of
22 \$600 for the spouse of the taxpayer if the spouse is a

1 *disabled individual and if the taxpayer is entitled to an*
 2 *exemption under subsection (b) for such spouse.*

3 “(3) *DISABLED INDIVIDUAL DEFINED.*—*The term*
 4 *‘disabled individual’ means an individual who, during*
 5 *the entire taxable year of the taxpayer, has a permanent*
 6 *loss or permanent loss of use of one or more of the ex-*
 7 *tremities, or is otherwise under a physical or mental dis-*
 8 *ability which can be expected to result in death or to be*
 9 *of long-continued and indefinite duration and which ren-*
 10 *ders him unable to engage in any substantial gainful*
 11 *activity. A taxpayer claiming a deduction under this*
 12 *subsection shall submit such proof that he (or his spouse)*
 13 *is a disabled individual as the Secretary of the Treasury*
 14 *or his delegate may by regulations prescribe. The regu-*
 15 *lations so prescribed shall include the following pro-*
 16 *visions:*

17 “(A) *Proof of disability shall be certified by a*
 18 *physician authorized to do so by any county (or*
 19 *equivalent) medical society.*

20 “(B) *The certifying physician shall specify the*
 21 *nature, cause, and physically limiting effects of the*
 22 *disability.”*

23 (b) *CONFORMING AMENDMENT.*—*Section 213(c) (re-*
 24 *lating to medical, dental, etc., expenses) is amended—*

1 (1) by striking out “(c) or (d)” and inserting in
2 lieu thereof “(c), (d), or (f)”, and

3 (2) by striking out “age or blindness” and inserting
4 in lieu thereof “age, blindness, or disability”.

5 (c) *WITHHOLDING*.—

6 (1) Paragraph (1) of section 3402(f) (relating
7 to withholding exemptions) is amended by adding at
8 the end thereof the following new subparagraph:

9 “(F) one additional exemption for himself if,
10 on the basis of facts existing at the beginning of
11 such day, there may reasonably be expected to be
12 allowable an exemption under section 151(f)(1)
13 (relating to the disabled) for the taxable year under
14 subtitle A in respect of which amounts deducted and
15 withheld under this chapter in the calendar year in
16 which such day falls are allowed as a credit.”

17 (2) Subparagraph (D) of such paragraph (1) is
18 amended (A) by striking out “(B), or (C),” and in-
19 serting in lieu thereof “(B), (C), or (F),”, and
20 (B) by striking out “and” at the end thereof.

21 (3) Subparagraph (E) of such paragraph (1) is
22 amended by striking out the period at the end and in-
23 serting in lieu thereof “; and”.

24 (d) *EFFECTIVE DATE*.—The amendments made by sub-

1 sections (a) and (b) shall apply only with respect to tax-
 2 able years ending after the date of enactment of this Act
 3 and the amendments made by subsection (c) shall apply
 4 only with respect to payment of wages made after such date.

5 (202)Page 277, after line 17, insert:

6 SEC. 247. TIME FOR FILING CLAIM FOR REFUND OF
 7 TAXES PAID FOR GASOLINE USED ON FARMS.

8 Section 6420(b) (relating to time for filing claim for
 9 refund on taxes paid for gasoline used on farms) is amended
 10 by inserting immediately before the period in the second
 11 sentence thereof the following: “; except that the Secre-
 12 tary or his delegate may allow a claim filed after such date
 13 if the claimant had good cause for failing to file on or before
 14 such date”.

15 (203)Page 277, after line 17, insert:

16 SEC. 248. FACILITIES TO CONTROL WATER OR AIR POL-
 17 LUTION.

18 (a) IN GENERAL.—Section 46(c) (relating to defini-
 19 tion of qualified investment for purposes of investment credit
 20 in certain depreciable property) is amended by adding after
 21 paragraph (4) thereof the following new paragraph:

22 “(5) FACILITIES TO CONTROL WATER AND AIR
 23 POLLUTION.—

24 “(A) In the case of section 38 property which
 25 consists of facilities or equipment to control water or

1 air pollution, the amount of the qualified investment
 2 shall be twice the amount determined under para-
 3 graph (1).

4 “(B) For purposes of subparagraph (A), the
 5 term ‘facilities or equipment to control water pol-
 6 lution’ means a facility or equipment used to control
 7 water pollution by removing, altering, or disposing
 8 of wastes from any type of manufacturing or mining
 9 process, including the necessary intercepting sewers,
 10 outfall sewers, pumping, power, and other equip-
 11 ment, and their appurtenances.

12 “(C) For purposes of subparagraph (A), the
 13 term ‘facilities or equipment to control air pollution’
 14 means a facility or equipment used to control atmos-
 15 pheric pollution or contamination by removing,
 16 altering, or disposing of atmospheric pollutants and
 17 contaminants from any type of manufacturing or
 18 mining process.”

19 (b) *EFFECTIVE DATE*.—The amendment made by sub-
 20 section (a) shall apply to taxable years beginning after
 21 December 31, 1963.

22 (204) Page 291, strike out all after line 15 over to and in-
 23 cluding line 9 on page 292 and insert:

24 (a) *PERCENTAGE METHOD OF WITHHOLDING*.—Sub-
 25 section (a) of section 3402 (relating to requirement of with-

1 *holding) is amended by striking out "18 percent" and insert-*
 2 *ing in lieu thereof "14 percent".*

3 **(205)**Page 292, strike out all after line 9 over to and in-
 4 cluding line 7 on page 298 and insert:

5 *(b) WAGE BRACKET WITHHOLDING.—Paragraph*
 6 *(1) of section 3402(c) (relating to wage bracket withhold-*
 7 *ing) is amended to read as follows:*

8 *"(1) At the election of the employer with respect to*
 9 *any employee, the employer shall deduct and withhold*
 10 *upon the wages paid to such employee a tax determined*
 11 *in accordance with the following tables, which shall be*
 12 *in lieu of the tax required to be deducted and withheld*
 13 *under subsection (a):*

14 **(206)**Page 304, strike out lines 1 to 14, inclusive, and
 15 insert:

16 *(c) WITHHOLDING OF TAX ON CERTAIN NONRESI-*
 17 *DENT ALIENS.—Subsections (a) and (b) of section 1441*
 18 *(relating to withholding of tax on nonresident aliens) are*
 19 *amended by striking out "18 percent" and inserting in lieu*
 20 *thereof "14 percent."*

21 **(207)**Page 304, line 17, strike out **[December 31, 1963]**
 22 and insert: *the seventh day following the date of the enact-*
 23 *ment of this Act*

- 1 (208)Page 304, lines 19 and 20, strike out [December 31,
2 1963] and insert: *the seventh day following the date of the*
3 *enactment of this Act*

Attest:

Secretary.

SECTION 21
SUMMARY OF SENATE AMENDMENTS

4051

SUMMARY OF SENATE
AMENDMENTS TO H.R. 8363
REVENUE BILL OF 1964

PREPARED FOR THE USE OF
THE HOUSE AND SENATE CONFEREES ON
THE REVENUE BILL OF 1964
BY THE STAFF OF THE
JOINT COMMITTEE ON
INTERNAL REVENUE TAXATION



FEBRUARY 10, 1964

U.S. GOVERNMENT PRINTING OFFICE

29-026

WASHINGTON : 1964

JCS-3-64

SUMMARY OF SENATE AMENDMENTS TO H.R. 8363 REVENUE BILL OF 1964

Number of
Senate
amendments

Description of amendment

DECLARATION OF CONGRESS

- 1 This amendment deletes the proposed declaration of Congress that the tax reduction bill through stimulation of the economy after a brief transitional period will raise, rather than lower, revenues. This is a committee amendment.

SHORT TITLE

- 2 Clerical change.
- 3 This is a clerical amendment changing the title of the bill to the Revenue Act of 1964.

RELATED AMENDMENTS

- 4 This is a technical amendment providing that for 1964, the retirement income credit is to be computed by applying a rate of 17 percent (rather than 15 percent) to income eligible for the credit. This is a floor amendment.

CORPORATIONS

- 5 This is a technical clarifying amendment relating to the allocation of one surtax exemption among multiple corporations.

FISCAL YEAR TAXPAYERS

- 6 and 7 Conforming amendment to No. 3.

RETIREMENT INCOME CREDIT

- 8 This amendment provides that the maximum limitation on the amount of retirement income eligible for the retirement income credit is to be raised by up to \$762, or from \$1,524 up to \$2,286, for a married couple where both are age 65 or over and one spouse is not eligible for the retirement income credit or, if eligible, can take only a small credit. The revenue effect of this amendment is estimated to be \$10 million. This is a committee amendment.

INVESTMENT CREDIT

- 9 Clerical amendment.
- 10 Clerical conforming amendment to No. 11, 12, and 13.
- 11, 12, and 13 This amendment provides that the restoration to basis of property eligible for the investment credit (or additional

Number of
Senate
amendments

Description of amendment

- deductions in the case of leased property) is to be made with respect to property placed in service before January 1, 1964 (rather than July 1, 1963). Conforms to No. 16, 17, 18. This is a committee amendment.
- 14 Clerical amendment.
- 15 Conforming amendment to No. 3.
- 16, 17, and 18 This amendment provides for the repeal of the basis adjustment under the investment credit with respect to property placed in service after December 31, 1963 (rather than June 30, 1963). This is a committee amendment.

GROUP TERM LIFE INSURANCE

- 19 Clerical amendment.
- 20 This amendment provides that the employee exclusion for premiums on group term insurance furnished by the employer is limited to premiums paid on the first \$70,000 of coverage (rather than \$30,000 under the House bill). The revenue effect of the House provision is \$5 million, of the Senate provision is negligible. This is a committee amendment.
- 21 This amendment provides that the amount includible in income of an employee covered by group term life insurance provided by his employer is to be determined only by reference to a uniform premium table (computed on the basis of 5-year age brackets) prescribed by regulations of the Secretary of the Treasury. The alternative policy cost method under the House bill is deleted. This is a committee amendment.
- 22 Clerical conforming amendment to No. 23.
- 23 This amendment deletes the deduction for certain contributions by employees for group term life insurance. This is a committee amendment.
- 24 These amendments provide that for purposes of income and tax withholding the term "wages" is not to include premiums for employee's group term life insurance. These are committee amendments.
- 25
- 26 This amendment provides for information returns (in lieu of withholding) with respect to amounts includible in gross income of employees covered by group term life insurance, and provides penalties for failure to provide the information report. This is a committee amendment.
- 27 and 28 Clerical amendments.
- 29 This amendment permits employees to designate a charity as the beneficiary of group term life insurance by May 1, 1964, and in such a case no amount would be includible in his gross income with respect to group term insurance for the period January 1, 1964, through April 30, 1964. This is a floor amendment.

REIMBURSED MEDICAL EXPENSES

Number of
Senate
amendments

Description of amendment

- 30 This amendment deletes that provision of the House bill relating to inclusion in gross income of reimbursements of medical expenses in excess of such expenses. This is a committee amendment.

SICK PAY

- 31 This amendment provides that if an employee's "sick pay" is less than 75 percent of his regular weekly rate of wages, then in applying the exclusion of up to \$100 per week, the waiting period under existing law (7 days in the case of sickness; no waiting in the case of injuries or hospitalization) is to apply (rather than the 30-day period under the House bill). This amendment reduces the \$110 million revenue gain under the House provision to \$55 million. This is a floor amendment.

DEDUCTION FOR TAXES

- 32 This amendment adds taxes on gasoline, diesel fuels and other fuels, and taxes on the registration and on licenses for the operation of motor vehicles to the list of State and local taxes which are deductible. This amendment is estimated to reduce the \$520 million revenue gain under the House bill by \$330 million, or to \$190 million. This is a committee amendment.
- 33 and 34 Clerical conforming amendments to No. 32.
- 35 This amendment continues the deduction for taxes levied by a special taxing district (such as Moffat Tunnel) for the purpose of retiring indebtedness outstanding on December 31, 1963. This is a committee amendment.

CHARITABLE CONTRIBUTIONS

- 36 This amendment provides that with respect to taxable years beginning after December 31, 1963, the unlimited deduction for charitable contributions is to apply only with respect to contributions to organizations which are not "private foundations." In addition, if the taxpayer elects the unlimited deduction, he may not also take advantage of the 5-year carryforward for charitable contributions provided by amendment No. 37. This is a committee amendment.
- 37 This amendment provides for a 5-year carryover of certain charitable contributions made by individuals. In general, for purposes of measuring the amount of the carryover the taxpayer is to be treated as if his contributions were made only to organizations which qualify for the 30-percent limitation, and only contributions in excess of 30 percent of the taxpayer's adjusted gross income may be carried over. This is a committee amendment.

4 SUMMARY OF AMENDMENTS TO REVENUE BILL OF 1964

Number of
Senate
amendments

38, 39
and 40

Description of amendment

- 41 This amendment deletes the provision which made the denial of deductions for charitable contributions in the form of future interests in tangible personal property inapplicable where the life interest was retained for the life or lives of the contributor or contributors. This is a committee amendment.
- 42 This amendment provides effective dates for the new provisions added by amendments Nos. 36 and 37. It also modifies the effective date of the 5-year carryover of charitable contributions by corporations so that such contributions made in taxable years beginning after December 31, 1961 (rather than December 31, 1963), qualify for the carryover. This is a committee amendment.

EXPROPRIATION LOSSES

- 43 This amendment provides for a 10-year carryforward of expropriation losses in certain cases (rather than a 3-year carryback and a 5-year carryforward). In general, if the foreign expropriation loss for any taxable year ending after December 31, 1958, equals 50 percent or more of the net operating loss for the taxable year, the taxpayer may elect to carry the *expropriation loss* forward for 10 years. This amendment involves a revenue loss of \$5 million in 1965 (no revenue loss in 1964). This is a committee amendment.

A floor amendment provides that for purposes of the 10-year carryforward a debt which becomes worthless shall be treated as a loss, to the extent of any deduction allowed under section 166(a), relating to bad debts.

MEDICINES AND DRUGS

- 44 Clerical amendment.

CHILD CARE

- 45 Clerical amendment.
- 46 This amendment provides that in the case of child care expenses the limitation on the deductible amount shall be—
- (a) \$600 if there is one dependent;
 - (b) \$900 if there are two dependents; and
 - (c) \$1,000 if there are three or more dependents.
- These limitations are made applicable to working wives (as well as widows, widowers, and husbands with incapacitated or institutionalized wives). This is a committee amendment.
- This amendment together with amendment No. 47 is estimated to reduce revenues by \$20 million as compared to \$5 million under the House bill.
- 47 This amendment increases the income limitation in the case of working wives and husbands with incapacitated wives from \$4,500 to \$7,000. This is a committee amendment.
- 48 Clerical amendment.

MOVING EXPENSES

Number of
Senate
amendments

Description of amendment

- 49 Clerical amendment.
- 50 Clerical conforming amendment to No. 23 and No. 53.
- 51 Clerical amendment.
- 52 Conforming amendment to No. 207.

POLITICAL CONTRIBUTIONS

- 53 This amendment provides for a deduction for contributions to any political candidate or any political committee if the contribution is made to further the candidacy of one or more individuals in a general, special, or primary election or at a convention of a political party. The deduction may not exceed \$50 (\$100 on a joint return). This amendment is estimated to result in a revenue loss of \$25 million in a presidential election year, \$12.5 million in a regular election year, and \$5 million in an off-election year. This is a committee amendment.

100-PERCENT DIVIDEND DEDUCTION

- 54 Affiliated groups of domestic corporations, where there is an 80-percent common ownership, which are eligible to file a consolidated return but do not do so, are permitted to take a 100-percent deduction for intercorporate dividends received from other members of the group if the group agrees to be treated as a single entity for certain purposes, such as the \$25,000 surtax exemption. For the dividends to be eligible for the 100-percent deduction, they must be distributed out of earnings and profits accumulated after December 31, 1963, during a time when both the payor and payee were members of the same affiliated group which limited itself to one surtax exemption. Although life insurance companies and mutual casualty insurance companies may not file consolidated returns with any other companies except companies of the same type, under this amendment dividends from or to such insurance companies are eligible for the 100-percent deduction if the entire affiliated group of which the insurance company is a member consents to the tax treatment provided by this section. This amendment involves a revenue loss of \$5 million. This is a committee amendment.

BANK LOAN INSURANCE

- 55 Clerical amendment.
- 56 This amendment provides that the disallowance of a deduction for interest on amounts borrowed to purchase certain insurance and annuity contracts is to apply only with respect to contracts purchased after December 31, 1963 (rather than August 6, 1963). This is a committee amendment.

INTEREST ON CERTAIN INDEBTEDNESS

Number of
Senate
amendments

Description of amendment

- 57 Under this amendment, financial institutions subject to State banking laws and issuing face-amount certificates are not to be denied a deduction for interest paid on these certificates (under sec. 265(2) of the code) to the extent the tax-exempt obligations constitute 25 percent or less of the institutions total assets. This is a committee amendment.

TRAVEL ALLOCATION RULE

- 58 This amendment deletes the rule adopted in 1962 which disallows a portion of travel expenses for certain business trips combined with a vacation. This amendment involves a revenue loss of \$5 million. This is a committee amendment.

CORPORATE REORGANIZATIONS

- 59 Under this amendment tax-free status is provided for a stock-for-stock reorganization where the corporation acquiring the stock exchanges the voting stock of its parent corporation for the stock of the corporation being acquired. This is a committee amendment.

PENSION PLANS

- 60 By this amendment provision is made for retroactive qualification (for all years to which the Internal Revenue Code of 1954 applies) of a multiemployer pension plan created under a collective-bargaining agreement with employee representatives. For retroactive qualification to be granted the pension plan must be qualified, and in the retroactive period contributions must not have been used in a manner which would jeopardize the interest of covered employees. This is a committee amendment.

PENSION PLANS FOR EMPLOYEES OF CERTAIN SUBSIDIARIES

- 61 Under this amendment U.S. corporations are to be permitted to extend coverage under their qualified pension, profit-sharing, etc., plans to U.S. citizens employed by foreign subsidiaries or by domestic subsidiaries operating outside the United States. In the case of foreign subsidiaries, this treatment will not be available unless these employees are also covered for social security purposes. In the case of domestic subsidiaries, this treatment would not be available unless the subsidiary is 80 percent owned by the domestic parent and received 95 percent of its gross income for the 3 preceding years from sources without the United States, and 90 percent of its gross income for such period was derived from the active conduct of a trade or business. It is further provided that the domestic parent may not take a deduction for contributions under its pension plan for these employees. This is a committee amendment.

STOCK OPTIONS

Number of Senate amendments	Description of amendment
62 and 63	Clerical amendments.
64, 66, 67, 71, 74, 76, 81, 82, 83, 84, 85, 86, 87 and 88	These amendments change from June 12, 1963, to January 1, 1964, the effective date for the qualified stock option provisions and the employee stock purchase plans. Thus, under these amendments, the new rules apply only to options granted after December 31, 1963, rather than after June 11, 1963. These are committee amendments.
65	Conforming amendment.
68 and 69	Minor technical amendments.
70	Generally, an option must not be exercisable while there is outstanding any qualified or restricted stock option which was granted to the employee at an earlier time. This amendment provides an exception to this rule to the effect that where the option price for the new option is at least as high as the price of each of the outstanding previously issued options to purchase the same stock (whether the prior options were qualified options or restricted options) the "reset" rule is not to apply. Thus, the new stock option in such a case may be exercised before the outstanding options.
72	This is a conforming amendment.
73	This is a minor technical amendment.
75	This is a conforming amendment.
77	This is a clerical amendment.
78	This is a minor technical amendment.
79 and 80	These are clerical amendments.
89	Conforming amendment to No. 91.
90	This is a minor conforming amendment.
91	This amendment provides that where an option under the terms under which it was granted is not immediately exercisable in full, the employer can permit the exercise date for any or all of the remaining installments of the option to be accelerated without this change being considered a "modification" which would require a new option price for the option for it to continue to constitute a qualified (or restricted) option. This amendment will have its primary effect where a second option is issued and the reset rule would otherwise apply. This is a committee amendment.
92	This is a minor technical amendment.
93	This is a conforming amendment.
94	This is a conforming amendment to No. 26, relating to information reporting for group-term insurance.
95	This amendment provides a transition rule in the case of qualified options. This rule provides that an option which is issued after December 31, 1963, and before January 1, 1965, which does not meet the terms of a "qualified option,"

Number of
Senate
amendments

Description of amendment

can be modified to meet these terms any time before January 1, 1965, without this modification considered as giving rise to a new option requiring a new option price. This is a committee amendment.

REVOLVING CREDIT

- 96 This amendment extends installment sales treatment, under which income is reported as installments are received, to all revolving credit sales of personal property, and to time payment charges associated with revolving credit sales. This amendment is expected to result in a reduction in tax liability of \$140 million for calendar year 1964 and of \$10 million a year for subsequent years. This is a committee amendment.

DEDUCTION OF CONTESTED ITEMS

- 97 This amendment permits a taxpayer who contests a tax or other liability to deduct the contested item in the year in which he makes the payment, or the year in which the contest is settled, whichever is earlier. This amendment is similar to H.R. 4040, ordered reported by the Committee on Ways and Means. This is a committee amendment.

UNSTATED INTEREST

- 98 Clerical change.
- 99 This amendment denies a deduction for unstated interest on contracts covering the purchase of services (such as college tuition). This is a committee amendment.
- 100 This amendment provides that if property is sold after June 30, 1963, pursuant to a binding written contract entered into before July 1, 1963, no part of an installment payment received under the contract will be treated as interest for tax purposes (or the interest portion of each payment will not be adjusted) even though the contract does not provide for interest (or provides for too little interest). This is a committee amendment.

PERSONAL HOLDING COMPANIES

- 101 Clerical change.
- 102 This amendment provides that in determining if a corporation qualifies as a lending or finance company, interest received on U.S. Government obligations by a dealer making a primary market for such obligations, and interest on condemnation awards, judgments, and tax refunds, is not to be treated in the same category as personal holding company income. This is a committee amendment.
- 103 Clerical changes.
- and
- 104
- 105 This provision amends the definition of a lending or finance business to include the business of rendering services or making facilities available to another member of the same affiliated group that is itself in the lending or finance business. This is a committee amendment.

Number of Senate amendments	Description of amendment
106	Technical drafting change.
107	This amendment provides that income received by a lending or finance company from another company which is a member of the same affiliated group and which is also a lending or finance company is not to be treated as personal holding company income. Thus, dividends, interest, and other forms of income received by one lending or finance company from another will not be considered as "personal holding company" income for purposes of determining whether 60 percent or more of the income of the receiving company is from the conduct of a lending or finance business. This is a committee amendment.
108	Under the bill, in general, rental income is classified as personal holding company income unless both of two tests are met. First, rental income is classified as personal holding company income unless it represents 50 percent or more of the adjusted gross income of the company. Second, even though more than 50 percent of the adjusted gross income rental income is classified as personal holding company income if more than 10 percent of the ordinary gross income of the company (excluding the rental income) is personal holding company income. This amendment modifies the 10-percent test to provide that where the rental income meets the 50-percent test, then the 10-percent test may be considered as met where the company distributes to the shareholders any of this other personal holding company income in excess of the 10-percent requirement. In addition to dividends paid out during the year, distributions for this purpose also include dividends paid in the next year which are treated as paid in the year in question and also consent dividends. This in effect permits taxpayers to meet the 10-percent test after dividend payments (or amounts treated as paid in dividends) while still giving assurance that the personal holding company income (apart from rent) sheltered in the company may not exceed 10 percent of the ordinary gross income. This is a committee amendment.
109	Under the bill, rental income, both in applying the 60-percent test (i.e., one of the tests as to whether a company is a personal holding company is whether it derives 60 percent or more of its income from personal holding company sources), and also in applying the 50-percent provision to the rental income itself (referred to in amendment No. 108 above), is determined by reducing it by depreciation, amortization, property taxes, interest, and rent paid. This amendment provides that tangible personal property which is not customarily rented to any one lessee for more than 3 years is not to be reduced by depreciation and amortization. This is a committee amendment.
110	Conforming amendment.
111	This amendment makes it clear that income from mineral, oil, and gas royalties, which generally is classified as personal holding company income, includes production pay-

Number of
Senate
amendments

Description of amendment

ments and overriding rotalties. This is a committee amendment.

112 Clerical amendment.

113, The bill provides that companies which "would have been"
114, personal holding companies in one of 2 years before the
116, enactment of the provision are to have relief from the ordi-
117, nary liquidation rules. In general terms they can carry over
118, the basis of assets acquired before 1963; and earnings and
119, profits distributed in their liquidation are taxed at capital
120, gains rates rather than as dividend income. Under the
122, House bill, this treatment is available in the case of liquida-
123, tions occurring before January 1, 1966. These amendments
124, make this treatment available in the case of liquidations
125, occurring before January 1, 1967. Under these amendments
126, the earnings and profits which receive this capital gains
133, treatment are those accumulated on or before December 31,
134, 1963 (rather than August 1, 1963). In addition, corporations
136 may receive the same liquidation treatment if they liquidate
and as soon as they pay off any indebtedness on hand on January
140 1, 1964 (rather than August 1, 1963). In addition, a com-
pany need not liquidate to escape personal holding company
tax to the extent it devotes all of its income with certain
adjustments to the payment of indebtedness existing on
August 1, 1963. Under these amendments, this is changed
to January 1, 1964. These are committee amendments.

115 Conforming amendments to No. 166.

and
121

127, Under the bill, those corporations which have indebtedness
128, incurred before December 31, 1963, and which would have
137, been personal holding companies had the new rules applied
138 in one of the last 2 years can escape this characterization
and if they use all of their earnings and profits to pay off this
139 preexisting indebtedness, although once the indebtedness
is paid off, they would then become subject to the personal
holding company tax. In addition, however, under the
House bill, they must pay out on this indebtedness an
amount equal to their deductions for exhaustion, wear and
tear, obsolescence, and amortization. These amendments
provide that they also must pay out on this indebtedness
their deduction for depletion. These are committee
amendments.

129, Under the bill, to receive the special treatment upon
132 liquidations or with respect to indebtedness, the corporation
and involved must have been in the status that it "would have
135 been" a personal holding company in one of the two most
recent taxable years ending before the date of the enactment
of this provision for the liquidation or indebtedness pro-
visions to apply. These amendments provide that they
must have been in the status of a "would have been" corpo-
ration in one of the 2 most recent years ending *before* Decem-
ber 31, 1963. For calendar year corporations these are

Number of
Senate
amendments

Description of amendment

the calendar years 1961 and 1962. These are committee amendments.

130 These amendments provide that where a corporation be-
and lieves that it is a "would have been" corporation eligible for
131 the special liquidation treatment under section 333, if it sub-
sequently is determined that it did not qualify for this treat-
ment, the liquidation will, nevertheless, be treated as
occurring under section 333 unless in the election it was in-
dicated that it was made under section 333 only on the as-
sumption that the new treatment would be available. Where
the shareholders indicate that they made the election on
this assumption, section 331 will apply if other requirements
for the use of this liquidation section had been complied with.
This is a committee amendment.

141 This amendment deletes the provision in the House bill
which provided for a step-up in basis (for estate tax paid
attributable to the appreciation) of stock of a foreign
personal holding company and which also provided rules for
the liquidation of such a company.

142, Clerical changes.

143,
and

144

145 Conforming amendment to No. 141.

146 Clerical change.

AGGREGATION OF OIL PROPERTIES

147 Clerical change.

148 Conforming amendment to No. 3.

IRON ORE ROYALTIES

149 Clerical change.

150 These amendments limit capital gains treatment to iron
and ore royalties received with respect to iron ore mined in the
151 United States. These are committee amendments.

152 These amendments deny capital gains treatment to iron
and ore royalties received from captive mines. These are com-
153 mittee amendments.

154, Conforming amendments to Nos. 150 and 151.

155,

156,

157,

158

and

159

160 This is a technical amendment to the Social Security Act
to prevent iron ore royalties which receive capital gains
treatment from being taken into account for social security
tax purposes.

161 This amendment provides that capital gains treatment
with respect to iron ore royalties is to apply only to royalties
received after December 31, 1963, with respect to iron ore
mined after that date. This is a committee amendment.

INSURANCE COMPANIES

Number of
Senate
amendments

Description of amendment

- 162 This amendment permits a deduction in 1962 for liquidating payments made to shareholders by stock life insurance companies which "mutualize". It also treats market discount on bonds owned by life insurance companies and by small mutual fire and casualty insurance companies as capital gain when the bonds are sold or redeemed. It also corrects a clerical error in the 1954 code relating to deductions for pension plan contributions of stock casualty insurance companies. These are committee amendments.

REGULATED INVESTMENT COMPANIES

- 163 This amendment extends from 30 days to 45 days the time within which regulated investment companies must mail certain notices to their shareholders. It also provides in the case of the redemption of stock in a regulated investment company by a unit investment trust, that the unit investment trust will receive a dividends paid deduction for the entire amount distributed to the redeeming shareholder. This latter amendment is similar to H.R. 6995, ordered reported by the Committee on Ways and Means. This is a committee amendment.

FOREIGN TAX CREDIT

- 164 This amendment provides that an excess foreign tax credit which arises from foreign mineral extraction, because of the U.S. percentage depletion allowance, may not be used to offset U.S. tax on foreign income not related to the extraction, processing, transportation or marketing of the extracted mineral or its primary product. This is a committee amendment.

REIMBURSEMENTS RECEIVED BY TRANSFERRED EMPLOYEES
IN CONNECTION WITH THE SALE OF A RESIDENCE

This amendment provides that where old employees are moved by an employer from one location to another, to the extent the employer reimburses them for selling expenses and the receipt of less than the fair price of the house because the sale had to occur in a short period of time, such amounts are to be treated as proceeds from the sale of the house rather than as compensation to the employee. As a result, to the extent they result in tax, these amounts will be treated as capital gain rather than as ordinary income. This amendment involves a revenue loss of about \$45 million. This is a committee amendment.

CAPITAL GAINS AND LOSSES

Number of
Senate
amendments

Description of amendment

- 166 This amendment continues existing law with respect to the taxation of capital gains and losses. Compared to the House bill it results in a decrease in tax liability of \$100 million in calendar year 1964, an increase of \$40 million in 1965 and of \$260 million a year in the long run. (The House bill also provided for unlimited carryover of capital losses and provided that such losses would retain their character in the years to which they were carried.) This is a committee amendment.

GAIN FROM THE SALE OF REAL PROPERTY

- 167 Clerical change.

AVERAGING

- 168 Clerical change.

- 169 Conforming amendments to No. 166.

and

170

- 171 This amendment allows taxpayers who elect income averaging to use the standard deduction without regard to the limitations in section 144 of the code. This is a committee amendment.

- 172, Clerical changes.

173,

174

and

175

- 176 Conforming amendment to No. 37.

SMALL BUSINESS CORPORATIONS

- 177 This amendment provides that in the case of subchapter S corporations (those whose income is passed through to its shareholders), certain distributions of money made within 2½ months after a taxable year may be treated as having been made during the preceding taxable year. It also provides that a corporate member of an affiliated group may elect subchapter S treatment if the only other members of the group are inactive subsidiary corporations. This inactive corporation provision is similar to H.R. 8797, ordered reported by the Committee on Ways and Means. This is a committee amendment.

REPEAL OF 2 PERCENT TAX ON CONSOLIDATED RETURNS

- 178 Clerical change.

MULTIPLE CORPORATIONS

Number of
Senate
amendments

Description of amendment

- 179 Clerical change.
- 180 This amendment is a technical drafting change which provides that the 6 percent additional tax is not to apply to any corporation which is denied a surtax exemption for any reason other than the fact it is a member of a controlled group.
- 181 Clerical change.
- 182 This amendment is a technical drafting change which makes it clear that neither the Secretary of the Treasury nor the taxpayer may use the tolling of the statute of limitations for the purpose of overturning closing or compromise agreements.
- 183 Conforming amendment to No. 186.
- 184 Clerical changes.
- and
- 185
- 186 This amendment is a technical drafting change to make it clear that the constructive ownership rules will not be applied to treat stock as excluded stock if the result is to remove the corporation from a controlled group.
- 187 Clerical changes.
- and
- 188
- 189 This amendment is a technical drafting change to make the percentage of ownership tests relating to voting stock and stock value consistent.
- 190 Conforming amendment to No. 180.
- 191 Clerical change.
- 192 Conforming amendment to No. 180.

TAX LIENS

- 193 This amendment provides that purchasers, mortgagees, and pledgees of motor vehicles will not be subject to a Federal tax lien against motor vehicles unless they have actual knowledge of the existence of the lien. This is a committee amendment.

EARNED INCOME OF U.S. CITIZENS ABROAD

- 194 This amendment provides that in the case of U.S. citizens who are present in the foreign country for 17 out of 18 consecutive months, or who are bona fide residents of a foreign country for not more than 3 years, the limitation on the exclusion from gross income is to be \$4,000 (instead of \$20,000); and in the case of a U.S. citizen who is a bona fide resident of a foreign country for more than 3 years the exclusion is to be \$6,000 (instead of \$35,000). This provision is estimated to increase revenues by about \$10 million. This is a floor amendment.

HEAD OF HOUSEHOLD

Number of
Senate
amendments

Description of amendment

- 195 This amendment provides head of household treatment for any individual who maintains a household for any person who is a dependent. This amendment is estimated to reduce revenues by about \$20 million. This is a floor amendment.

CUBAN SEIZURES

- 196 This provision permits a deduction for losses occasioned by the seizure, by Cuba, of personal residences (and other personal property) by treating such losses as losses arising from a casualty. This is a floor amendment.

REFUND OF SELF-EMPLOYMENT TAX

- 197 This amendment permits persons who paid self-employment tax and who are later covered for the same period by a retroactive social security agreement entered into by a State to obtain a refund of the self-employment tax in the same manner as if it were F.I.C.A. tax. This amendment is similar to H.R. 5468, ordered reported by the Committee on Ways and Means. This is a floor amendment.

ESTATE TAX ON REVERSIONARY OR REMAINDER INTERESTS

- 198 This amendment provides 3 years (rather than 2) after a precedent interest terminates for the payment of estate tax if earlier payment results in undue hardship. This is a floor amendment.

CROP INSURANCE PROCEEDS

- 199 This amendment provides that insurance proceeds received as a result of destruction or damage to crops may be reported for income tax purposes in the year following the year of destruction or damage if the taxpayer satisfies the Secretary of the Treasury that the income from the crop would not have been reported until the later year. This is a floor amendment.

DISABLED INDIVIDUALS

- 200 This amendment provides a deduction of up to \$600 for transportation expenses of going to and from work for a taxpayer who is blind or who has lost the use of a leg, both legs, both arms, or is otherwise disabled, if he cannot use public transportation. This is a floor amendment.

PERSONAL EXEMPTIONS FOR DISABILITY

- 201 This amendment provides an extra \$600 exemption for a disabled taxpayer or a disabled spouse. For this purpose a disabled individual is one who has a permanent loss (or

WATER OR AIR POLLUTION

Number of
Senate
amendments

Description of amendment

permanent loss of use) of one or more of the extremities, or is otherwise under a physical or mental disability which can be expected to result in death or to be of long-continued and indefinite duration, and which renders him unable to engage in any substantial gainful activity. This amendment, together with amendment No. 200, is estimated to reduce revenues by about \$185 million. This is a floor amendment.

TAX FOR GASOLINE USED ON FARMS

202 This amendment permits the Secretary to honor a claim for refund of taxes paid for gasoline used on farms which is filed after the statutory period for filing the refund claim (June 30–September 30) if the claimant had good cause for failure to file a timely claim. This is a floor amendment.

203 This amendment allows a double investment credit for facilities or equipment to control water or air pollution. For water pollution control, this provision includes equipment which removes, alters, or disposes of wastes from any type of manufacturing or mining process, and includes necessary sewers, pumping, power, and other equipment. For air pollution control, this provision includes equipment to control atmospheric pollution or contamination by removing, altering, or disposing of atmospheric pollutants and contaminants from any type of manufacturing or mining process. This amendment is estimated to reduce tax liability for calendar year 1964 by about \$25 million, for 1965 by about \$30 million, and by about \$50 million in the long run. This is a floor amendment.

WITHHOLDING

204 This amendment provides for withholding at a rate of 14 percent (rather than 18 percent). Conforms to No. 207. (Under House bill withholding would have been at a rate of 15 percent for 1964 and 14 percent for 1965 and thereafter.) This is a committee amendment.

205 Conforming amendment to No. 207.

206 Conforming amendment to No. 208.

207 These amendments provide that the new withholding rate
and of 14 percent is to apply with respect to amounts paid after
208 the seventh day following the date of enactment of this act.
These are committee amendments.

SECTION 22

SUMMARY OF CONFERENCE COMMITTEE ACTION

4071

February 19, 1964

SUMMARY OF CONFERENCE COMMITTEE ACTION ON H. R. 8363,
THE "REVENUE ACT OF 1964"

SA = Senate amendment; HR = House recedes; SR = Senate recedes.

Note: Clerical, technical, and conforming amendments not shown.

SA #1 (Declaration of Congress) - SR; SA #4 (retirement income credit) - HR; SA #8 (retirement income credit) - HR with perfecting amendment; SA #10-13, 16-18 (investment credit) - HR; SA #20 (group term life insurance) - HR with amendment limiting exclusion to first \$50,000 of coverage; SA #21-29 (group term life insurance) - HR; SA #30 (reimbursed medical expenses) - HR; SA #31 (sick pay) - HR with amendment providing a 7-day waiting period in the case of injury as well as sickness, unless hospitalized (no waiting period in cases of hospitalization), and providing that the exclusion will be available without regard to the 30-day waiting period only in cases where the employee's "sick pay" is less than 75% of his regular weekly wages and will be limited to \$75 a week; SA #32 (deduction for taxes) - HR with amendment restoring deductibility of State and local gasoline, diesel fuel and other fuels taxes; SA #35 (deduction for taxes) - HR; SA #36 (charitable contributions) - HR with amendment providing that unlimited deduction will apply in the case of contributions to organizations "not supported by the general public" (1) where the foundation is itself an "operating foundation" or (2) where the organization pays out (either uses it itself for the charitable purpose or gives it to another organization which fully qualifies for the unlimited deduction) 50% or more of the contribution within a three-year period. Such an organization will not qualify, however, if any part of income or corpus is lent to the donor of the contribution, any member of his family, any employee of his, any officer or employee of a corporation in which he owns directly or indirectly 50% of the stock, or any partner or employee of the partnership where he has a 50% interest in the partnership; neither can the foundation pay compensation to this same group of persons (except to the extent of reasonable compensation) nor make the services provided by the foundation available to the donor or related parties on a preferential basis, nor buy any property or securities (except nominal amounts) from them nor sell any but nominal amounts to them. SA #37 (charitable contribution carryover, individuals) - HR; SA #41 (gifts of future interest) - HR with amendment making provision effective July 1, 1964; SA #42 (charitable contributions - unlimited deduction; carryover, corporations - effective dates) - HR; SA #43 (expropriation losses) - HR; SA #46 (child care - amount deductible) - SR; SA #47 (child

care - income limitation) - HR with amendment setting income limitation at \$6,000; SA #53 (political contributions) - SR; SA #54 (100% intercorporate dividend deduction) - HR; SA #56 (bank loan insurance) - SR; SA #57 (interest on certain indebtedness) - HR with amendment reducing percentage limitation to 15% or less of the institution's total assets; SA #58 (travel allocation rule) - HR with amendment providing that the rule* is to be deleted only with respect to domestic travel; SA #59 (corporate reorganizations) - HR; SA #60 (pension plans) - HR; SA #61 (pension plans for employees of certain subsidiaries) - HR with technical amendments; SA #64-88 (stock options) - HR; SA #70 (stock options) - HR; SA #91 (stock options) - HR; SA #95 (stock options) - HR; SA #96 (revolving credit) - HR with amendment providing that revolving credit is to be eligible for instalment payment treatment but defining revolving credit as excluding "charge account" type accounts, and limiting the provision to sales at retail; SA #97 (deduction of contested items) - HR; SA #99 (deduction of unstated interest on contracts covering purchase of services) - HR with amendment permitting deduction in the case of contracts for educational services (such as college tuition); SA #100 - (instalment sales) - HR; SA #105 (personal holding companies) - HR with modifications; SA #107 (personal holding companies) - HR with modifications; SA #108, 109, 111, 112-140 - (personal holding companies)-HR except SA 129, 132, 135 (personal holding companies) - SR; SA #130 and 131 (personal holding companies) - HR; SA #141 (personal holding companies) - HR with amendment which will provide for an increase in basis of stock in the hands of an heir equal to the estate tax paid on the appreciation in value of the stock; SA 150-153 (iron ore royalties) - HR; SA #160 (iron ore royalties) - HR; SA #161 (iron ore royalties) - HR; SA #162 (insurance companies) - HR; SA #163 (regulated investment companies) - HR; SA #164 (foreign tax credit) - SR; SA #165 (sale of residence by transferred employees) - SR; SA #166 (capital gains and losses - holding period, inclusion factor, maximum alternative rate, carryover) - HR with amendment providing unlimited carryover of capital losses (subject to existing \$1000 limitation); SA #171 (income averaging) - HR; SA #177 (small business corporations) - HR; SA #179-192 (multiple corporations) - HR; SA #193 (tax liens) - HR with amendment making provision inapplicable in the case of mortgagees and pledgees, and with a minor change in the case of possession; SA #194 (earned income of U. S. citizens abroad) - HR with amendment restoring \$20,000 exclusion in the case of U.S. citizens present in foreign country for 17 out of 18 months or bona fide residents of foreign country for not more than 3 years, and reducing exclusion in the case of U.S. citizen who is a bona fide resident of foreign country for more than 3 years to \$25,000 (effective 1965 and subsequent years); SA #195 (head of household) - SR; SA #196 (Cuban seizures) - HR; SA #197 (refund of self-employment tax) - HR with technical amendment; SA #198 (estate tax on reversionary or remainder interests) - HR; SA #199 (crop insurance proceeds) - SR; SA #200 (disabled individuals - transportation expenses) - SR; SA #201 (disabled individuals - personal exemption) - SR; SA #202 (tax for gasoline used on farms) - SR; SA #203 (water or air pollution) - SR; SA #204-208 (withholding) - HR.

*of existing law

Revenue Estimates*

Reduction in tax liability for:

	<u>Calendar year 1964</u>	<u>Calendar year 1965</u>
Individuals --	\$ 6.135-billion	\$ 9.120-billion
Corporations -	<u>1.555-billion</u>	<u>2.360-billion</u>
Total ----	\$ 7.690-billion	\$ 11.480-billion

Long-run, total tax reduction: \$11.545-billion

*Source: Joint Committee on Internal Revenue Taxation

SECTION 23
CONFERENCE REPORT

4077

REVENUE ACT OF 1964

FEBRUARY 24, 1964.—Ordered to be printed

Mr. MILLS, from the committee of conference,
submitted the following

CONFERENCE REPORT

[To accompany H.R. 8363]

The committee of conference on the disagreeing votes of the two Houses on the amendments of the Senate to the bill (H.R. 8363) to amend the Internal Revenue Code of 1954 to reduce individual and corporate income taxes, to make certain structural changes with respect to the income tax, and for other purposes, having met, after full and free conference, have agreed to recommend and do recommend to their respective Houses as follows:

That the Senate recede from its amendments numbered 1, 2, 53, 56, 129, 132, 135, 142, 143, 144, 146, 164, 165, 195, 199, 200, 201, 202, and 203.

That the House recede from its disagreement to the amendments of the Senate numbered 3, 4, 5, 6, 7, 9, 10, 11, 12, 13, 14, 15, 16, 17, 18, 19, 21, 22, 23, 24, 25, 28, 29, 30, 33, 34, 35, 37, 38, 39, 40, 41, 44, 45, 48, 49, 51, 52, 63, 64, 65, 66, 67, 68, 69, 71, 72, 73, 74, 75, 76, 77, 78, 79, 80, 81, 82, 83, 84, 85, 86, 87, 88, 89, 90, 91, 92, 93, 94, 95, 102, 103, 107, 108, 109, 110, 111, 112, 113, 114, 115, 116, 117, 118, 119, 120, 121, 122, 123, 124, 125, 126, 127, 128, 130, 131, 133, 134, 136, 137, 138, 139, 140, 148, 150, 151, 152, 153, 154, 155, 156, 157, 158, 159, 160, 161, 169, 170, 171, 172, 173, 174, 175, 176, 180, 181, 182, 183, 184, 186, 187, 188, 189, 190, 191, 192, 204, 205, 206, 207, and 208, and agree to the same.

Amendment numbered 8:

That the House recede from its disagreement to the amendment of the Senate numbered 8, and agree to the same with an amendment as follows:

In lieu of the matter proposed to be inserted by the Senate amendment insert the following:

SEC. 202. RETIREMENT INCOME CREDIT OF CERTAIN MARRIED INDIVIDUALS.

(a) *DETERMINATION OF RETIREMENT INCOME.*—Section 37 (relating to retirement income) is amended by redesignating subsection (i) as subsection (j) and by inserting after subsection (h) the following new subsection:

“(i) *SPECIAL RULES FOR CERTAIN MARRIED COUPLES.*—

“(1) *ELECTION.*—A husband and wife who make a joint return for the taxable year and both of whom have attained the age of 65 before the close of the taxable year may elect (at such time and in such manner as the Secretary or his delegate by regulations prescribes) to determine the amount of the credit allowed by subsection (a) by applying the provisions of paragraph (2).

“(2) *SPECIAL RULES.*—If an election is made under paragraph (1) for the taxable year, for purposes of subsection (a)—

“(A) if either spouse is an individual who has received earned income within the meaning of subsection (b), the other spouse shall be considered to be an individual who has received earned income within the meaning of such subsection; and

“(B) subsection (d) shall be considered as providing that the amount of the combined retirement income of both spouses shall not exceed \$2,286, less the sum of the amounts specified in paragraphs (1) and (2) of subsection (d) for each spouse.”

(b) *EFFECTIVE DATE.*—The amendments made by subsection (a) shall apply to taxable years beginning after December 31, 1963.

And the Senate agree to the same.

Amendment numbered 20:

That the House recede from its disagreement to the amendment of the Senate numbered 20, and agree to the same with an amendment as follows:

Strike out the matter proposed to be stricken out and in lieu of the matter proposed to be inserted by the Senate amendment insert the following:

“(1) the cost of \$50,000 of such insurance, and

And the Senate agree to the same.

Amendment numbered 26:

That the House recede from its disagreement to the amendment of the Senate numbered 26, and agree to the same with an amendment, as follows:

Page 7, in the last line of the matter following line 3, of the Senate engrossed amendments, strike out “222” and insert: 221; and the Senate agree to the same.

Amendment numbered 27:

That the House recede from its disagreement to the amendment of the Senate numbered 27, and agree to the same with an amendment, as follows:

Page 7, line 6, of the Senate engrossed amendments, strike out “222” and insert: 221; and the Senate agree to the same.

Amendment numbered 31:

That the House recede from its disagreement to the amendment of the Senate numbered 31, and agree to the same with an amendment as follows:

Strike out the matter proposed to be stricken out and in lieu of the matter proposed to be inserted by the Senate amendment insert the following:

period, if such amounts are at a rate which exceeds 75 percent of the regular weekly rate of wages of the employee (as determined under regulations prescribed by the Secretary or his delegate). If amounts attributable to the first 30 calendar days in such period are at a rate which does not exceed 75 percent of the regular weekly rate of wages of the employee, the first sentence of this subsection (1) shall not apply to the extent that such amounts exceed a weekly rate of \$75, and (2) shall not apply to amounts attributable to the first 7 calendar days in such period unless the employee is hospitalized on account of personal injuries or sickness for at least one day during such period."

And the Senate agree to the same.

Amendment numbered 32:

That the House recede from its disagreement to the amendment of the Senate numbered 32, and agree to the same with an amendment as follows:

In lieu of the matter proposed to be inserted by the Senate amendment insert the following:

"(5) State and local taxes on the sale of gasoline, diesel fuel, and other motor fuels.

And the Senate agree to the same.

Amendment numbered 36:

That the House recede from its disagreement to the amendment of the Senate numbered 36, and agree to the same with amendments as follows:

In lieu of the matter proposed to be inserted by the Senate amendment insert the following:

(b) UNLIMITED CHARITABLE CONTRIBUTION DEDUCTION.—Section 170 (relating to charitable, etc., contributions and gifts) is amended by inserting after subsection (f) (added by subsection (e) of this section) the following new subsection:

"(g) APPLICATION OF UNLIMITED CHARITABLE CONTRIBUTION DEDUCTION.—

"(1) ALLOWANCE OF DEDUCTION FOR TAXABLE YEARS BEGINNING AFTER DECEMBER 31, 1963.—If the taxable year begins after December 31, 1963—

"(A) subsection (b)(1)(C) shall apply only if the taxpayer so elects (at such time and in such manner as the Secretary or his delegate by regulations prescribes); and

"(B) for purposes of subsection (b)(1)(C), the amount of the charitable contributions for the taxable year (and for all prior taxable years beginning after December 31, 1963) shall be determined without the application of subsection (b)(5) and solely by reference to charitable contributions described in paragraph (2).

If the taxpayer elects to have subsection (b)(1)(C) apply for the taxable year, then for such taxable year subsection (a) shall apply

only with respect to charitable contributions described in paragraph (2), and no amount of charitable contributions made in the taxable year or any prior taxable year may be treated under subsection (b)(5) as having been made in the taxable year or in any succeeding taxable year.

“(2) *QUALIFIED CONTRIBUTIONS.*—The charitable contributions referred to in paragraph (1) are—

“(A) any charitable contribution described in subsection (b)(1)(A);

“(B) any charitable contribution, not described in subsection (b)(1)(A), to an organization described in subsection (c)(2) substantially more than half of the assets of which is devoted directly to, and substantially all of the income of which is expended directly for, the active conduct of the activities constituting the purpose or function for which it is organized and operated;

“(C) any charitable contribution, not described in subsection (b)(1)(A), to an organization described in subsection (c)(2) which meets the requirements of paragraph (3) with respect to such charitable contribution; and

“(D) any charitable contribution payment of which is made on or before the date of the enactment of the Revenue Act of 1964.

“(3) *ORGANIZATIONS EXPENDING AT LEAST 50 PERCENT OF DONOR'S CONTRIBUTIONS.*—An organization shall be an organization referred to in paragraph (2)(C), with respect to any charitable contribution, only if—

“(A) not later than the close of the third year after the organization's taxable year in which the contribution is received (or before such later time as the Secretary or his delegate may allow upon good cause shown by such organization), such organization expends an amount equal to at least 50 percent of such contribution for—

“(i) the active conduct of the activities constituting the purpose or function for which it is organized and operated,

“(ii) assets which are directly devoted to such active conduct,

“(iii) contributions to organizations which are described in subsection (b)(1)(A) or in paragraph (2)(B) of this subsection, or

“(iv) any combination of the foregoing; and

“(B) for the period beginning with the taxable year in which such contribution is received and ending with the taxable year in which subparagraph (A) is satisfied with respect to such contribution, such organization expends all of its net income (determined without regard to capital gains and losses) for the purposes described in clauses (i), (ii), (iii), and (iv) of subparagraph (A).

If the taxpayer so elects (at such time and in such manner as the Secretary or his delegate by regulations prescribes) with respect to contributions made by him to any organization, then, in applying subparagraph (B) with respect to contributions made by him to such organization during his taxable year for which such election is made

and during all his subsequent taxable years, amounts expended by the organization after the close of any of its taxable years and on or before the 15th day of the third month following the close of such taxable year shall be treated as expended during such taxable year.

“(4) *DISQUALIFYING TRANSACTIONS*.—An organization shall be an organization referred to in subparagraph (B) or (C) of paragraph (2) only if at no time during the period consisting of the organization's taxable year in which the contribution is received, its 3 preceding taxable years, and its 3 succeeding taxable years, such organization—

“(A) lends any part of its income or corpus to,

“(B) pays compensation (other than reasonable compensation for personal services actually rendered) to,

“(C) makes any of its services available on a preferential basis to,

“(D) purchases more than a minimal amount of securities or other property from, or

“(E) sells more than a minimal amount of securities or other property to,

the donor of such contribution, any member of his family (as defined in section 267(c)(4)), any employee of the donor, any officer or employee of a corporation in which he owns (directly or indirectly) 50 percent or more in value of the outstanding stock, or any partner or employee of a partnership in which he owns (directly or indirectly) 50 percent or more of the capital interest or profits interest. This paragraph shall not apply to transactions occurring on or before the date of the enactment of the Revenue Act of 1964.”

Page 62, line 3, of the House engrossed bill, strike out “(g) and (h),” and insert: (h) and (i),

And the Senate agree to the same.

Amendment numbered 42:

That the House recede from its disagreement to the amendment of the Senate numbered 42, and agree to the same with an amendment as follows:

Page 14, line 8, of the Senate engrossed amendments, strike out the period and insert:

, except that such amendments shall not apply to any transfer of a future interest made before July 1, 1964, where—

(A) the sole intervening interest or right is a nontransferable life interest reserved by the donor, or

(B) in the case of a joint gift by husband and wife, the sole intervening interest or right is a nontransferable life interest reserved by the donors which expires not later than the death of whichever of such donors dies later.

For purposes of the exception contained in the preceding sentence, a right to make a transfer of the reserved life interest to the donee of the future interest shall not be treated as making a life interest transferable.

And the Senate agree to the same.

Amendment numbered 43:

That the House recede from its disagreement to the amendment of the Senate numbered 43, and agree to the same with an amendment as follows:

Page 16, lines 1 and 2, of the Senate engrossed amendments, strike out "may be prescribed by the Secretary or his delegate" and insert: *the Secretary or his delegate by regulations prescribes*

And the Senate agree to the same.

Amendment numbered 46:

That the House recede from its disagreement to the amendment of the Senate numbered 46, and agree to the same with an amendment as follows:

Strike out the matter proposed to be stricken out and in lieu of the matter proposed to be inserted by the Senate amendment insert the following:

"(B) The \$600 limit of subparagraph (A) shall be increased (to an amount not above \$900) by the amount of expenses incurred by the taxpayer for any period during which the taxpayer had 2 or more dependents.

And the Senate agree to the same.

Amendment numbered 47:

That the House recede from its disagreement to the amendment of the Senate numbered 47, and agree to the same with an amendment as follows:

Page 19, line 21, of the Senate engrossed amendments, strike out "\$7,000" and insert: \$6,000

And the Senate agree to the same.

Amendment numbered 50:

That the House recede from its disagreement to the amendment of the Senate numbered 50, and agree to the same with amendments as follows:

Strike out the matter proposed to be stricken out and omit the matter proposed to be inserted by the Senate amendment.

Page 68, line 8, of the House engrossed bill, strike out "219" and insert: 218

Page 71 of the House engrossed bill, in the matter following line 14, strike out " 'Sec. 219. Cross references.' " and insert: "Sec. 218. Cross references."

And the Senate agree to the same.

Amendment numbered 54:

That the House recede from its disagreement to the amendment of the Senate numbered 54, and agree to the same with an amendment as follows:

Page 22, line 18, of the Senate engrossed amendments, strike out "215" and insert: 214; and the Senate agree to the same.

Amendment numbered 55:

That the House recede from its disagreement to the amendment of the Senate numbered 55, and agree to the same with an amendment as follows:

Strike out the matter proposed to be stricken out and in lieu of the matter proposed to be inserted by the Senate amendment insert the following: 215; and the Senate agree to the same.

Amendment numbered 57:

That the House recede from its disagreement to the amendment of the Senate numbered 57, and agree to the same with amendments as follows:

Page 31, line 18, of the Senate engrossed amendments, strike out "217" and insert: 216

Page 32, line 1, of the Senate engrossed amendments, beginning with "which" strike out all through "80a-2))" in line 5 and insert: *which is a face-amount certificate company registered under the Investment Company Act of 1940 (15 U.S.C. 80a-1 and following) and which is subject to the banking laws of the State in which such institution is incorporated, interest on face-amount certificates (as defined in section 2(a)(15) of such Act)*

Page 32, line 13, of the Senate engrossed amendments, strike out "25 percent" and insert: 15 percent

And the Senate agree to the same.

Amendment numbered 58:

That the House recede from its disagreement to the amendment of the Senate numbered 58, and agree to the same with an amendment as follows:

In lieu of the matter proposed to be inserted by the Senate amendment insert the following:

SEC. 217. LIMITATION OF TRAVEL ALLOCATION REQUIREMENT TO FOREIGN TRAVEL.

(a) *LIMITATION OF APPLICATION OF SECTION 274(c).*—Section 274(c) (relating to traveling) is amended to read as follows:

"(c) *CERTAIN FOREIGN TRAVEL.*—

"(1) *IN GENERAL.*—In the case of any individual who travels outside the United States away from home in pursuit of a trade or business or in pursuit of an activity described in section 212, no deduction shall be allowed under section 162 or section 212 for that portion of the expenses of such travel otherwise allowable under such section which, under regulations prescribed by the Secretary or his delegate, is not allocable to such trade or business or to such activity.

"(2) *EXCEPTION.*—Paragraph (1) shall not apply to the expenses of any travel outside the United States away from home if—

"(A) such travel does not exceed one week, or

"(B) the portion of the time of travel outside the United States away from home which is not attributable to the pursuit of the taxpayer's trade or business or an activity described in section 212 is less than 25 percent of the total time on such travel.

"(3) *DOMESTIC TRAVEL EXCLUDED.*—For purposes of this subsection, travel outside the United States does not include any travel from one point in the United States to another point in the United States."

(b) *EFFECTIVE DATE.*—The amendment made by subsection (a) shall apply with respect to taxable years ending after December 31, 1962, but only in respect of periods after such date.

And the Senate agree to the same.

Amendment numbered 59:

That the House recede from its disagreement to the amendment of the Senate numbered 59, and agree to the same with an amendment as follows:

Page 33, line 6, of the Senate engrossed amendments, strike out "219" and insert: 218; and the Senate agree to the same.

Amendment numbered 60:

That the House recede from its disagreement to the amendment of the Senate numbered 60, and agree to the same with an amendment as follows:

Page 35, line 2, of the Senate engrossed amendments, strike out "220" and insert: 219; and the Senate agree to the same.

Amendment numbered 61:

That the House recede from its disagreement to the amendment of the Senate numbered 61, and agree to the same with amendments as follows:

Page 37, line 2, of the Senate engrossed amendments, strike out "221" and insert: 220

Page 44 of the Senate engrossed amendments, after line 22, insert:

If for the period (or part thereof) referred to in clauses (ii) and (iii) such corporation has no gross income, the provisions of clauses (ii) and (iii) shall be treated as satisfied if it is reasonable to anticipate that, with respect to the first taxable year thereafter for which such corporation has gross income, the provisions of such clauses will be satisfied.

And the Senate agree to the same.

Amendment numbered 62:

That the House recede from its disagreement to the amendment of the Senate numbered 62, and agree to the same with an amendment as follows:

Strike out the matter proposed to be stricken out and in lieu of the matter proposed to be inserted by the Senate amendment insert the following: 221; and the Senate agree to the same.

Amendment numbered 70:

That the House recede from its disagreement to the amendment of the Senate numbered 70, and agree to the same with an amendment as follows:

In lieu of the matter proposed to be inserted by the Senate amendment insert the following:

"(6) APPLICATION OF SUBSECTION (b)(5) WHERE OPTIONS ARE FOR STOCK OF SAME CLASS IN SAME CORPORATION.—The requirement of subsection (b)(5) shall be considered to have been met in the case of any option (referred to in this paragraph as 'new option') granted to an individual if—

"(A) the new option and all outstanding options referred to in subsection (b)(5) are to purchase stock of the same class in the same corporation, and

"(B) the new option by its terms is not exercisable while there is outstanding (within the meaning of paragraph (2)) any qualified stock option (or restricted stock option) which was granted, before the granting of the new option, to such individual

to purchase stock in such corporation at a price (determined as of the date of grant of the new option) higher than the option price of the new option.

And the Senate agree to the same.

Amendment numbered 96:

That the House recede from its disagreement to the amendment of the Senate numbered 96, and agree to the same with an amendment as follows:

In lieu of the matter proposed to be inserted by the Senate amendment insert the following:

SEC. 222. SALES AT RETAIL UNDER REVOLVING CREDIT PLANS.

(a) *TREATMENT UNDER INSTALLMENT METHOD.*—Section 453 (relating to installment method of accounting) is amended by adding at the end thereof the following new subsection:

“(e) *REVOLVING CREDIT TYPE PLANS.*—For purposes of subsection (a), the term ‘installment plan’ includes a revolving credit type plan which provides that the purchaser of personal property at retail may pay for such property in a series of periodic payments of an agreed portion of the amounts due the seller under the plan, except that such term does not include any such plan with respect to a purchaser who uses his account primarily as an ordinary charge account.”

(b) *EFFECTIVE DATE.*—The amendment made by subsection (a) shall apply in respect of sales made during taxable years beginning after December 31, 1963.

And the Senate agree to the same.

Amendment numbered 97:

That the House recede from its disagreement to the amendment of the Senate numbered 97, and agree to the same with amendments as follows:

Page 57, line 14, of the Senate engrossed amendments, strike out “224” and insert: 223

Page 57, line 14, of the Senate engrossed amendments, strike out “AND CREDITS”

Page 57, line 17, of the Senate engrossed amendments, strike out “OR CREDIT”

Page 58, line 4, of the Senate engrossed amendments, strike out “or credit”

Page 58, line 6, of the Senate engrossed amendments, strike out “or credit”

Page 58, line 7, of the Senate engrossed amendments, after the period and before the quotation marks insert: *This subsection shall not apply in respect of the deduction for income, war profits, and excess profits taxes imposed by the authority of any foreign country or possession of the United States.*

Page 58, line 11, of the Senate engrossed amendments, strike out “sentence” and insert: *sentences*

Page 58, line 19, of the Senate engrossed amendments, strike out “or credit”

Page 58, line 22, of the Senate engrossed amendments, strike out “or credit”

Page 58, line 23, of the Senate engrossed amendments, after the period and before the quotation marks insert: *The preceding sentence*

shall not apply in respect of the deduction for income, war profits, and excess profits taxes imposed by the authority of any foreign country or possession of the United States.

Page 60, line 4, of the Senate engrossed amendments, strike out "or credit"

Page 61, line 3, of the Senate engrossed amendments, strike out "or credit"

Page 61, line 12, of the Senate engrossed amendments, strike out "or credit"

And the Senate agree to the same.

Amendment numbered 98:

That the House recede from its disagreement to the amendment of the Senate numbered 98, and agree to the same with an amendment as follows:

Strike out the matter proposed to be stricken out and in lieu of the matter proposed to be inserted by the Senate amendment insert the following: 224; and the Senate agree to the same.

Amendment numbered 99:

That the House recede from its disagreement to the amendment of the Senate numbered 99, and agree to the same with an amendment as follows:

Strike out the matter proposed to be stricken out by the Senate amendment and in lieu thereof insert the following:

(c) *CERTAIN CARRYING CHARGES.*—Section 163(b)(1) (relating to installment purchases where interest charge is not separately stated) is amended—

(1) by striking out "personal property is purchased" and inserting in lieu thereof "personal property or educational services are purchased"; and

(2) by adding at the end thereof the following new sentence: "For purposes of this paragraph, the term 'educational services' means any service (including lodging) which is purchased from an educational institution (as defined in section 151(e)(4)) and which is provided for a student of such institution."

And the Senate agree to the same.

Amendment numbered 100:

That the House recede from its disagreement to the amendment of the Senate numbered 100, and agree to the same with an amendment as follows:

Strike out the matter proposed to be stricken out and in lieu of the matter proposed to be inserted by the Senate amendment insert the following:

(d) *EFFECTIVE DATE.*—The amendments made by subsections (a) and (b) shall apply to payments made after December 31, 1963, on account of sales or exchanges of property occurring after June 30, 1963, other than any sale or exchange made pursuant to a binding written contract (including an irrevocable written option) entered into before July 1, 1963. The amendments made by subsection (c) shall apply to payments made during taxable years beginning after December 31, 1963.

And the Senate agree to the same.

Amendment numbered 101:

That the House recede from its disagreement to the amendment of the Senate numbered 101, and agree to the same with an amendment as follows:

Strike out the matter proposed to be stricken out and in lieu of the matter proposed to be inserted by the Senate amendment insert the following: 225; and the Senate agree to the same.

Amendment numbered 104:

That the House recede from its disagreement to the amendment of the Senate numbered 104, and agree to the same with an amendment, as follows:

Strike out the matter proposed to be stricken out and in lieu of the matter proposed to be inserted by the Senate amendment insert the following: *obligations*,; and the Senate agree to the same.

Amendment numbered 105:

That the House recede from its disagreement to the amendment of the Senate numbered 105, and agree to the same with an amendment as follows:

In lieu of the matter proposed to be inserted by the Senate amendment insert the following:

“(iii) rendering services or making facilities available in connection with activities described in clauses (i) and (ii) carried on by the corporation rendering services or making facilities available, or

“(iv) rendering services or making facilities available to another corporation which is engaged in the lending or finance business (within the meaning of this paragraph), if such services or facilities are related to the lending or finance business (within such meaning) of such other corporation and such other corporation and the corporation rendering services or making facilities available are members of the same affiliated group (as defined in section 1504).

And the Senate agree to the same.

Amendment numbered 106:

That the House recede from its disagreement to the amendment of the Senate numbered 106, and agree to the same with an amendment as follows:

Strike out the matter proposed to be stricken out and in lieu of the matter proposed to be inserted by the Senate amendment insert the following:

unless the loans, notes, or installment obligations are evidenced or secured by contracts of conditional sale, chattel mortgages, or chattel lease agreements arising out of the sale of goods or services in the course of the borrower's or transferor's trade or business, or

And the Senate agree to the same.

Amendment numbered 141:

That the House recede from its disagreement to the amendment of the Senate numbered 141, and agree to the same with an amendment as follows:

Strike out the matter proposed to be stricken out by the Senate amendment and in lieu thereof insert:

(j) *INCREASE IN BASIS WITH RESPECT TO CERTAIN FOREIGN PERSONAL HOLDING COMPANY STOCK OR SECURITIES.*—

(1) *IN GENERAL.*—Part II of subchapter O of chapter 1 (relating to basis rules of general application) is amended by redesignating section 1022 as section 1023 and by inserting after section 1021 the following new section:

“SEC. 1022. INCREASE IN BASIS WITH RESPECT TO CERTAIN FOREIGN PERSONAL HOLDING COMPANY STOCK OR SECURITIES.

“(a) *GENERAL RULE.*—The basis (determined under section 1014(b)(5), relating to basis of stock or securities in a foreign personal holding company) of a share of stock or a security, acquired from a decedent dying after December 31, 1963, of a corporation which was a foreign personal holding company for its most recent taxable year ending before the date of the decedent's death shall be increased by its proportionate share of any Federal estate tax attributable to the net appreciation in value of all of such shares and securities determined as provided in this section. .

“(b) *PROPORTIONATE SHARE.*—For purposes of subsection (a), the proportionate share of a share of stock or of a security is that amount which bears the same ratio to the aggregate increase determined under subsection (c)(2) as the appreciation in value of such share or security bears to the aggregate appreciation in value of all such shares and securities having appreciation in value.

“(c) *SPECIAL RULES AND DEFINITIONS.*—For purposes of this section—

“(1) *FEDERAL ESTATE TAX.*—The term ‘Federal estate tax’ means only the tax imposed by section 2001 or 2101, reduced by any credit allowable with respect to a tax on prior transfers by section 2013 or 2102.

“(2) *FEDERAL ESTATE TAX ATTRIBUTABLE TO NET APPRECIATION IN VALUE.*—The Federal estate tax attributable to the net appreciation in value of all shares of stock and securities to which subsection (a) applies is that amount which bears the same ratio to the Federal estate tax as the net appreciation in value of all of such shares and securities bears to the value of the gross estate as determined under chapter 11 (including section 2032, relating to alternate valuation).

“(3) *NET APPRECIATION.*—The net appreciation in value of all shares and securities to which subsection (a) applies is the amount by which the fair market value of all such shares and securities exceeds the adjusted basis of such property in the hands of the decedent.

“(4) *FAIR MARKET VALUE.*—For purposes of this section, the term ‘fair market value’ means fair market value determined under chapter 11 (including section 2032, relating to alternate valuation).

“(d) *LIMITATIONS.*—This section shall not apply to any foreign personal holding company referred to in section 342(a)(2).”

(2) *AMENDMENT OF SECTION 1016(a).*—Section 1016(a) (relating to adjustments to basis) is amended by striking out the period at the end thereof and by inserting in lieu thereof a semicolon and by adding at the end thereof the following new paragraph:

“(21) to the extent provided in section 1022, relating to increase in basis for certain foreign personal holding company stock or securities.”

(3) *CLERICAL AMENDMENT.*—The table of sections for part II of subchapter O of chapter 1 is amended by striking out

“Sec. 1022. Cross references.”

and inserting in lieu thereof the following:

“Sec. 1022. Increase in basis with respect to certain foreign personal holding company stock or securities.

“Sec. 1023. Cross references.”

And the Senate agree to the same.

Amendment numbered 145:

That the House recede from its disagreement to the amendment of the Senate numbered 145, and agree to the same with an amendment as follows:

Strike out the matter proposed to be stricken out by the Senate amendment and in lieu thereof insert:

(4) *The amendments made by subsection (j) shall apply in respect of decedents dying after December 31, 1963.*

And the Senate agree to the same.

Amendment numbered 147:

That the House recede from its disagreement to the amendment of the Senate numbered 147, and agree to the same with an amendment as follows:

Strike out the matter proposed to be stricken out and in lieu of the matter proposed to be inserted by the Senate amendment insert the following: 226; and the Senate agree to the same.

Amendment numbered 149:

That the House recede from its disagreement to the amendment of the Senate numbered 149, and agree to the same with an amendment as follows:

Strike out the matter proposed to be stricken out and in lieu of the matter proposed to be inserted by the Senate amendment insert the following: 227; and the Senate agree to the same.

Amendment numbered 162:

That the House recede from its disagreement to the amendment of the Senate numbered 162, and agree to the same with an amendment as follows:

Page 68, line 22, of the Senate engrossed amendments, strike out “229” and insert: 228; and the Senate agree to the same.

Amendment numbered 163:

That the House recede from its disagreement to the amendment of the Senate numbered 163, and agree to the same with an amendment as follows:

Page 70, line 22, of the Senate engrossed amendments, strike out “230” and insert: 229; and the Senate agree to the same.

Amendment numbered 166:

That the House recede from its disagreement to the amendment of the Senate numbered 166, and agree to the same with an amendment as follows:

Strike out the matter proposed to be stricken out by the Senate amendment and in lieu thereof insert the following:

SEC. 230. CAPITAL LOSS CARRYOVERS FOR TAXPAYERS OTHER THAN CORPORATIONS.

(a) *IN GENERAL.*—Section 1212 (relating to capital loss carryover) is amended—

(1) by striking out “If for any taxable year the taxpayer” and inserting in lieu thereof:

“(a) *CORPORATIONS.*—If for any taxable year a corporation”; and

(2) by adding at the end thereof the following new subsection:

“(b) *OTHER TAXPAYERS.*—

“(1) *IN GENERAL.*—If a taxpayer other than a corporation has a net capital loss for any taxable year beginning after December 31, 1963—

“(A) the excess of the net short-term capital loss over the net long-term capital gain for such year shall be a short-term capital loss in the succeeding taxable year, and

“(B) the excess of the net long-term capital loss over the net short-term capital gain for such year shall be a long-term capital loss in the succeeding taxable year.

For purposes of this paragraph, in determining such excesses an amount equal to the excess of the sum allowed for the taxable year under section 1211(b) over the gains from sales or exchanges of capital assets (determined without regard to this sentence) shall be treated as a short-term capital gain in such year.

“(2) *TRANSITIONAL RULE.*—In the case of a taxpayer other than a corporation, there shall be treated as a short-term capital loss in the first taxable year beginning after December 31, 1963, any amount which is treated as a short-term capital loss in such year under this subchapter as in effect immediately before the enactment of the Revenue Act of 1964.”

(b) *TECHNICAL AMENDMENTS.*—

(1) Section 1222(9) (relating to net capital gain) is amended to read as follows:

“(9) *NET CAPITAL GAIN.*—In the case of a corporation, the term ‘net capital gain’ means the excess of the gains from sales or exchanges of capital assets over the losses from such sales or exchanges.”

(2) The second sentence of section 1222(10) (relating to net capital loss) is amended by striking out “For the purpose” and inserting in lieu thereof “In the case of a corporation, for the purpose”.

(c) *EFFECTIVE DATE.*—The amendments made by this section shall apply to taxable years beginning after December 31, 1963.

And the Senate agree to the same.

Amendment numbered 167:

That the House recede from its disagreement to the amendment of the Senate numbered 167, and agree to the same with an amendment as follows:

Strike out the matter proposed to be stricken out and in lieu of the matter proposed to be inserted by the Senate amendment insert the following: 231; and the Senate agree to the same.

Amendment numbered 168:

That the House recede from its disagreement to the amendment of the Senate numbered 168, and agree to the same with an amendment as follows:

Strike out the matter proposed to be stricken out and in lieu of the matter proposed to be inserted by the Senate amendment insert the following: 232; and the Senate agree to the same.

Amendment numbered 177:

That the House recede from its disagreement to the amendment of the Senate numbered 177, and agree to the same with an amendment as follows:

Page 81, line 11, of the Senate engrossed amendments, strike out "235" and insert: 233; and the Senate agree to the same.

Amendment numbered 178:

That the House recede from its disagreement to the amendment of the Senate numbered 178, and agree to the same with an amendment as follows:

Strike out the matter proposed to be stricken out and in lieu of the matter proposed to be inserted by the Senate amendment insert the following: 234; and the Senate agree to the same.

Amendment numbered 179:

That the House recede from its disagreement to the amendment of the Senate numbered 179, and agree to the same with an amendment as follows:

Strike out the matter proposed to be stricken out and in lieu of the matter proposed to be inserted by the Senate amendment insert the following: 235; and the Senate agree to the same.

Amendment numbered 185:

That the House recede from its disagreement to the amendment of the Senate numbered 185, and agree to the same with an amendment, as follows:

Strike out the matter proposed to be stricken out and insert the matter proposed to be inserted by the Senate amendment and on page 268 of the House engrossed bill strike out lines 20, 21, and 22, and insert:

(C) ADOPTED CHILD—For purposes of this section, a legally adopted child of an individual shall be treated as a child of such individual by blood.

And the Senate agree to the same.

Amendment numbered 193:

That the House recede from its disagreement to the amendment of the Senate numbered 193, and agree to the same with an amendment as follows:

In lieu of the matter proposed to be inserted by the Senate amendment insert the following:

SEC. 236. VALIDITY OF TAX LIENS AGAINST PURCHASERS OF MOTOR VEHICLES.

(a) *PURCHASERS WITHOUT ACTUAL NOTICE OR KNOWLEDGE OF LIEN.*—Section 6323 (relating to validity of liens for Federal taxes) is amended by redesignating subsection (d) as subsection (e) and by inserting after subsection (c) the following new subsection:

“(d) *EXCEPTION IN CASE OF MOTOR VEHICLES.*—

“(1) *EXCEPTION.*—Even though notice of a lien provided in section 6321 has been filed in the manner prescribed in subsection (a) of this section, the lien shall not be valid with respect to a motor vehicle, as defined in paragraph (2) of this subsection, as against any purchaser of such motor vehicle for an adequate and full consideration in money or money's worth if—

“(A) at the time of the purchase the purchaser is without notice or knowledge of the existence of such lien, and

“(B) before the purchaser obtains such notice or knowledge, he has acquired possession of such motor vehicle and has not thereafter relinquished possession of such motor vehicle to the seller or his agent.

“(2) *DEFINITION OF MOTOR VEHICLE.*—As used in this subsection, the term ‘motor vehicle’ means a self-propelled vehicle which is registered for highway use under the laws of any State or foreign country.”

(b) *LIENS FOR ESTATE AND GIFT TAXES.*—Section 6324 (relating to special lien for estate and gift taxes) is amended by adding at the end thereof the following new subsection:

“(d) *EXCEPTION IN CASE OF MOTOR VEHICLES.*—The lien imposed by subsection (a) or (b) shall not be valid with respect to a motor vehicle, as defined in section 6323(d)(2), as against any purchaser of such motor vehicle for an adequate and full consideration in money or money's worth if—

“(1) at the time of the purchase the purchaser is without notice or knowledge of the existence of such lien, and

“(2) before the purchaser obtains such notice or knowledge, he has acquired possession of such motor vehicle and has not thereafter relinquished possession of such motor vehicle to the seller or his agent.”

(c) *CLERICAL AMENDMENTS.*—

(1) Section 6323(a) is amended by striking out “subsection (c)” and inserting in lieu thereof “subsections (c) and (d)”.

(2) Section 6324 is amended by inserting after “subsection (c) (relating to transfers of securities)” in subsections (a) and (b) the following: “and subsection (d) (relating to purchases of motor vehicles)”.

(d) *EFFECTIVE DATES.*—The amendments made by this section shall apply only with respect to purchases made after the date of the enactment of this Act.

And the Senate agree to the same.

Amendment numbered 194:

That the House recede from its disagreement to the amendment of the Senate numbered 194, and agree to the same with an amendment as follows:

In lieu of the matter proposed to be inserted by the Senate amendment insert the following:

SEC. 237. EXCLUSION OF EARNED INCOME OF CERTAIN UNITED STATES CITIZENS WHO ARE RESIDENTS OF FOREIGN COUNTRIES.

(a) *REDUCTION OF LIMITATION.*—Subparagraph (B) of section 911(c)(1) (relating to limitations on amount of exclusion) is amended by striking out “\$35,000” and inserting in lieu thereof “\$25,000”.

(b) *EFFECTIVE DATE.*—The amendment made by subsection (a) shall apply to taxable years beginning after December 31, 1964.

And the Senate agree to the same.

Amendment numbered 196:

That the House recede from its disagreement to the amendment of the Senate numbered 196, and agree to the same with an amendment as follows:

In lieu of the matter proposed to be inserted by the Senate amendment insert the following:

SEC. 238. LOSSES ARISING FROM CONFISCATION OF PROPERTY BY CUBA.

Section 165 (relating to losses) is amended by redesignating subsection (i) as subsection (j) and by inserting after subsection (h) the following new subsection:

“(i) *CERTAIN PROPERTY CONFISCATED BY CUBA.*—For purposes of this chapter, any loss of tangible property, if such loss arises from expropriation, intervention, seizure, or similar taking by the government of Cuba, any political subdivision thereof, or any agency or instrumentality of the foregoing, shall be treated as a loss from a casualty within the meaning of subsection (c)(3).”

And the Senate agree to the same.

Amendment numbered 197:

That the House recede from its disagreement to the amendment of the Senate numbered 197, and agree to the same with an amendment as follows:

In lieu of the matter proposed to be inserted by the Senate amendment insert the following:

SEC. 239. CREDIT OR REFUND OF SELF-EMPLOYMENT TAX.

Section 6511 (relating to limitations on credit or refund) is amended by adding at the end of subsection (d) the following new paragraph:

“(5) *SPECIAL PERIOD OF LIMITATION WITH RESPECT TO SELF-EMPLOYMENT TAX IN CERTAIN CASES.*—If the claim for credit or refund relates to an overpayment of the tax imposed by chapter 2 (relating to the tax on self-employment income) attributable to an agreement, or modification of an agreement, made pursuant to section 218 of the Social Security Act (relating to coverage of State and local employees), and if the allowance of a credit or refund of such overpayment is otherwise prevented by the operation of any law or rule

of law other than section 7122 (relating to compromises), such credit or refund may be allowed or made if claim therefor is filed on or before the later of the following dates: (A) the last day of the second year after the calendar year in which such agreement (or modification) is agreed to by the State and the Secretary of Health, Education, and Welfare, or (B) December 31, 1965."

And the Senate agree to the same.

Amendment numbered 198:

That the House recede from its disagreement to the amendment of the Senate numbered 198, and agree to the same with amendments as follows:

Page 92, line 2, of the Senate engrossed amendments, strike out "243" and insert: 240

Page 93, line 3, of the Senate engrossed amendments, after "1939" insert: *attributable to such interest, including any extensions thereof,*

And the Senate agree to the same.

W. D. MILLS,
CECIL R. KING,
THOS. J. O'BRIEN,
HALE BOGGS,
JOHN W. BYRNES,
VICTOR A. KNOX,

Managers on the Part of the House.

HARRY F. BYRD,
RUSSELL B. LONG,
GEORGE SMATHERS,
CLINTON P. ANDERSON,
JOHN J. WILLIAMS,
FRANK CARLSON,
WALLACE F. BENNETT,

Managers on the Part of the Senate.

STATEMENT OF THE MANAGERS ON THE PART OF THE HOUSE

The managers on the part of the House at the conference on the disagreeing votes of the two Houses on the amendments of the Senate to the bill (H.R. 8363) to amend the Internal Revenue Code of 1954 to reduce individual and corporate income taxes, to make certain structural changes with respect to the income tax, and for other purposes, submit the following statement in explanation of the effect of the action agreed upon by the conferees and recommended in the accompanying conference report:

The following Senate amendments made technical, clerical, clarifying, or conforming changes: 2, 3, 5, 6, 7, 9, 14, 15, 19, 22, 24, 27, 28, 33, 34, 38, 39, 40, 44, 45, 48, 49, 50, 51, 52, 55, 62, 63, 65, 68, 69, 72, 73, 75, 77, 78, 79, 80, 89, 90, 92, 93, 94, 98, 101, 103, 104, 110, 112, 113, 115, 118, 120, 121, 122, 123, 125, 126, 127, 128, 130, 134, 135, 136, 138, 140, 142, 143, 144, 145, 146, 147, 148, 149, 150, 152, 154, 155, 156, 157, 158, 159, 160, 161, 167, 168, 169, 170, 172, 173, 174, 175, 176, 178, 179, 180, 181, 182, 183, 184, 185, 186, 187, 188, 189, 190, 191, and 192. With respect to these amendments (1) the House either recedes or recedes with amendments which are technical, clerical, clarifying, or conforming in nature; or (2) the Senate recedes in order to conform to other action agreed upon by the committee of conference.

DECLARATION BY CONGRESS

Amendment No. 1: Section 1 of the bill as passed by the House provided that it is the sense of Congress that the tax reduction provided by the bill, through stimulation of the economy, will, after a brief transitional period, raise (rather than lower) revenues and that such revenue increases should first be used to eliminate the deficits in the administrative budgets and then to reduce the public debt. Such section also provided that, to further the objective of obtaining balanced budgets in the near future, Congress by this action recognizes the importance of taking all reasonable means to restrain Government spending and urges the President to declare his accord with this objective. Senate amendment No. 1 strikes out this section of the bill.

The Senate recedes.

REDUCTION OF TAX RATES—RETIREMENT INCOME CREDIT

Amendment No. 4: Section 37(a) of the code provides the general rule that the credit against tax for retirement income shall be determined by multiplying the retirement income (as defined in and limited by sec. 37) by the rate provided in section 1 of the code (relating to tax imposed on individuals) for the first \$2,000 of taxable income. The bill as passed by the House provided that the credit shall be equal to 15 percent of such retirement income. Senate amendment

No. 4 retains the change made by the bill as passed by the House except that in the case of a taxable year beginning in 1964 the amendment provides that the credit shall be equal to 17 percent of such retirement income.

The House recedes.

RETIREMENT INCOME CREDIT IN CASE OF CERTAIN JOINT RETURNS

Amendment No. 8: Section 37 of the code provides a credit against tax for retirement income. To be eligible for the credit, an individual must have received earned income in excess of \$600 in each of 10 calendar years before the taxable year and (except in the case of pensions and annuities under a public retirement system) must have attained the age of 65 before the close of the taxable year. Under section 37(d) of the code the amount of retirement income taken into account in the case of any individual may not exceed \$1,524 less (1) amounts received in the taxable year as pensions and annuities (including social security and railroad retirement benefits) which are excluded from gross income, and (2) if the individual has not attained the age of 72, adjustments for earned income received in the taxable year.

Senate amendment No. 8 adds a new subsection (i) to section 37 of the code. The new subsection provides an increase in the \$1,524 amount in the case of certain joint returns where both the husband and wife have attained age 65 before the close of the taxable year. If both spouses meet the 10-year earned income requirement and if in the case of either spouse the sum of the retirement income and of the amounts described in paragraphs (1) and (2) of section 37(d) of the code which reduce the \$1,524 amount is less than \$762, then the \$1,524 amount is to be increased with respect to the other spouse by an amount equal to the excess of \$762 over such sum. If either spouse does not meet the 10-year earned income requirement, the \$1,524 amount is to be increased with respect to the other spouse by an amount equal to the excess of \$762 over the amounts described in paragraphs (1) and (2) of section 37(d) of the code received by his spouse.

The House recedes with an amendment. Under the conference agreement, a husband and wife who make a joint return for the taxable year and both of whom have attained the age of 65 before the close of the taxable year may elect to determine the amount of the credit allowed by section 37(a) of the code by applying the special rules of the new section 37(i)(2). These special rules provide that (1) if either spouse meets the 10-year earned income requirement the other spouse shall be considered as also meeting that requirement, and (2) section 37(d) (relating to limitation on retirement income) shall be considered as providing that the amount of the combined retirement income of both spouses is not to exceed \$2,286 less the sum of the amounts for each spouse specified in paragraphs (1) and (2) of section 37(d) (that is, amounts received in the taxable year as pensions and annuities which are excluded from gross income, and amounts representing adjustments for certain earned income received during the taxable year). Under the conference agreement, this new provision will apply to taxable years beginning after December 31, 1963.

EFFECTIVE DATE FOR REPEAL OF REQUIREMENT THAT BASIS OF SECTION 38 PROPERTY BE REDUCED BY 7 PERCENT

Amendments Nos. 10, 11, 12, 13, 16, 17, and 18: Section 48(g) of the code requires the basis of any section 38 property (that is, property with respect to which an investment credit is allowable) to be reduced by an amount equal to 7 percent of the qualified investment with respect to such property. The bill as passed by the House repealed section 48(g) of the code, provided special rules to increase the basis of property placed in service before July 1, 1963 (the effective date of the repeal), and made conforming changes in the code. The repeal and conforming changes apply (1) in the case of property placed in service after June 30, 1963, with respect to taxable years ending after such date, and (2) in the case of property placed in service before July 1, 1963, with respect to taxable years beginning after June 30, 1963.

Senate amendments Nos. 10, 11, 12, 13, 16, 17, and 18 change the "June 30, 1963" and "July 1, 1963" dates to "December 31, 1963" and "January 1, 1964", respectively, for purposes of both the effective date provisions and the special rules relating to property placed in service before the effective date.

The House recedes.

GROUP-TERM LIFE INSURANCE PURCHASED FOR EMPLOYEES

Amendment No. 20: The bill as passed by the House added a new section 79 to the code. In general, the new section 79 requires an employee to include in gross income for the taxable year an amount equal to the cost of group-term life insurance on his life under policies carried by his employers, but only to the extent that such cost exceeds the sum of (1) the cost of so much of such insurance as does not exceed \$30,000 of such protection, and (2) the amount (if any) paid by the employee toward the purchase of the insurance.

Senate amendment No. 20 in effect increases the \$30,000 amount referred to above to \$70,000.

The House recedes with an amendment. Under the conference agreement the new section 79 of the code requires an employee to include in gross income for the taxable year an amount equal to the cost of group-term life insurance on his life under policies carried by his employers, but only to the extent that such cost exceeds the sum of (1) the cost of \$50,000 of such insurance, and (2) the amount (if any) paid by the employee toward the purchase of such insurance. In providing for the inclusion, to the extent specified, in a taxpayer's income of certain amounts representing the cost of group-term life insurance, it is not intended that such insurance include the death benefits in so-called travel insurance or accident and health policies where such policies do not provide general death benefits.

Amendment No. 21: Under the bill as passed by the House the cost of group-term life insurance on the life of an employee provided during any period was to be determined on the basis of uniform premiums (computed on the basis of 5-year age brackets); except that, at the election of the employer with respect to any employee, the cost was to be determined on the basis of the actual average premium cost under the policy for the ages included within the age bracket which would be applicable to the employee but for the election.

Senate amendment No. 21 deletes the election (policy cost method) so that the cost is to be determined in all cases under the uniform premium method.

The House recedes. It is the understanding of the conferees that the Treasury Department will study the table of premiums at attained ages contained in the committee reports on the bill to see whether this table should not be replaced by a table which reflects the most recent mortality experience and which may possibly make some allowance for expense factors.

Amendment No. 23: The bill as passed by the House added a new section 218 to the code to provide a deduction in the case of certain employees where group-term life insurance in excess of \$30,000 is provided under policies carried by his employers. The deduction in the case of any employee was to be an amount equal to the excess (if any) of (1) the amount paid by the employee toward the purchase of such insurance in excess of \$30,000, over (2) the cost of such insurance in excess of \$30,000 (such cost to be determined in a specified manner).

Senate amendment No. 23 strikes out this provision.

The House recedes.

Amendments Nos. 25 and 26: Under the bill as passed by the House, the cost of group-term life insurance included in the income of the employee under the new section 79 was not excluded from income tax withholding. Under Senate amendment No. 25, no part of the cost of group-term life insurance is to be subject to income tax withholding. Senate amendment No. 26 adds a new section 6052 to the code (1) to require the employer to file an information return setting forth the cost of such insurance, to the extent such cost is includible in the gross income of the employee, and (2) to furnish a statement to the employee showing the cost shown on the return. This amendment also makes conforming changes in section 6678 of the code, relating to penalty for failure to furnish statements.

The House recedes with a clerical amendment.

Amendment No. 29: The new section 79(b) of the code provides exceptions to the general rule of section 79(a) which requires an employee to include in gross income a portion of the cost of certain group-term life insurance. Under section 79(b)(2)(B), the general rule is not to apply to the cost of any portion of the group-term life insurance on the life of an employee provided during part or all of the taxable year of the employee under which a person described in section 170(c) of the code (relating to definition of charitable contributions) is the sole beneficiary. The effect of Senate amendment No. 29 is to treat the insurance contract as satisfying this condition for the period beginning January 1, 1964, and ending April 30, 1964, in the case of a taxable year beginning before May 1, 1964, if the condition is satisfied for the portion after April 30, 1964, of the employee's first taxable year ending after such date.

The House recedes.

INCLUSION IN GROSS INCOME OF REIMBURSED MEDICAL EXPENSES TO THE EXTENT THAT THE REIMBURSEMENT EXCEEDS THE EXPENSES

Amendment No. 30: Section 204 of the bill as passed by the House added a new section 80 to the code. The new section 80 required that amounts received through accident or health insurance for medi-

cal expenses be included in gross income to the extent the aggregate of such amounts received for any personal injury or sickness exceeds the aggregate amount of the medical expenses incurred by the taxpayer for such injury or sickness.

Senate amendment No. 30 strikes out this section of the bill.

The House recedes.

AMOUNTS RECEIVED UNDER WAGE CONTINUATION PLANS

Amendment No. 31: Section 105(d) of the code (relating to wage continuation plans) provides (subject to a \$100 weekly rate limitation) that gross income does not include amounts received as accident or health insurance if such amounts constitute wages or payments in lieu of wages for a period during which the employee is absent from work on account of personal injury or sickness. Under existing law, in the case of a period during which the employee is absent from work on account of sickness, the exclusion from gross income does not apply to amounts (sick pay) attributable to the first 7 calendar days in such period unless the employee is hospitalized on account of sickness for at least 1 day during such period.

Under the bill as passed by the House, the exclusion from gross income was not to apply to amounts (sick pay) attributable to the first 30 calendar days in any period of absence from work on account of personal injury or sickness. Senate amendment No. 31 has the same effect as the bill as passed by the House where the amounts (sick pay) received exceed 75 percent of the regular weekly rate of wages of the employee. Under the Senate amendment, if the amounts (sick pay) received are less than 75 percent of the regular weekly rate of wages of the employee, the exclusion from gross income is not to apply to amounts attributable to the first 7 calendar days in the period of absence from work unless the employee is hospitalized on account of sickness for at least 1 day during such period.

The House recedes with an amendment which provides that if the amounts (sick pay) received are at a rate not exceeding 75 percent of the employee's regular weekly rate of wages, the exclusion from gross income is to apply to amounts attributable to the first 30 calendar days of the period of absence to the extent of a weekly rate of \$75, but is not to apply to amounts attributable to the first 7 calendar days in such period unless the employee is hospitalized on account of personal injuries or sickness for at least 1 day during such period.

DENIAL OF DEDUCTIONS FOR CERTAIN STATE, LOCAL, AND FOREIGN TAXES

Amendment No. 32: Section 207 of the bill as passed by the House amended section 164 of the code (relating to deduction of taxes) to provide for the allowance of a deduction for those State, local, and foreign taxes listed in the bill. Senate amendment No. 32 adds to the list:

(1) State and local taxes on the sale of gasoline, diesel fuel, and other motor fuels; and

(2) State and local taxes on the registration or licensing of highway motor vehicles and on licenses for the operation of highway motor vehicles.

The House recedes with an amendment. Under the conference action, State and local taxes on the sale of gasoline, diesel fuel, and other motor fuels will remain deductible. However, State and local taxes on the registration or licensing of highway motor vehicles and on licenses for the operation of highway motor vehicles will no longer be deductible (unless paid or accrued in carrying on a trade or business or an activity described in sec. 212 of the code).

Amendment No. 35: In amending section 164 of the code, the bill as passed by the House eliminated the deduction permitted by existing section 164(b)(5)(B) of the code for certain taxes assessed against local benefits levied by special taxing districts described in such section. The effect of Senate amendment No. 35 is to continue the allowance of the deduction for such taxes if the special taxing district was in existence on December 31, 1963, and the taxes are levied for the purpose of retiring indebtedness existing on such date.

The House recedes.

CHARITABLE, ETC., CONTRIBUTIONS AND GIFTS

Amendment No. 36: Under existing section 170(b)(1)(C) of the code, an individual is allowed an unlimited charitable contribution deduction if in the taxable year, and in 8 of the 10 preceding taxable years, the charitable contributions and the income taxes paid by the taxpayer during such year exceed 90 percent of his taxable income computed without deduction for charitable contributions, personal exemptions, and net operating loss carrybacks. Under existing law, the unlimited charitable contribution deduction is computed by reference to charitable contributions to those organizations to which the general 20-percent limitation applies, whether or not those organizations are ones to which the additional 10-percent limitation also applies.

This amendment redesignates subparagraph (D) of section 170(b)(1) of the code as subparagraph (E) and inserts a new subparagraph (D) which provides, in effect, that if the taxable year begins after December 31, 1963—

(1) section 170(b)(1)(C) shall apply only at the election of the taxpayer; and

(2) in determining whether the 90-percent requirement is satisfied in the taxable year and in 8 of the 10 preceding taxable years, the amount of the charitable contributions for the taxable year (and for all prior taxable years beginning after December 31, 1963) is to be determined without the application of section 170(b)(5) of the code (carryover of certain excess contributions by individuals, added by Senate amendment No. 37) and solely by reference to charitable contributions described in section 170(b)(1)(A) of the code, as amended by section 209(a) of the bill (i.e., contributions to those organizations to which the additional 10-percent limitation applies).

If the taxpayer elects to have section 170(b)(1)(C) apply for the taxable year, then for such taxable year the deduction under section 170(a) of the code applies only with respect to charitable contributions to those organizations to which the additional 10-percent limitation applies. In addition, no amount of charitable contributions made in the taxable year or any prior taxable year may be treated

under the new section 170(b)(5) as having been made in the taxable year or in any succeeding taxable year.

The House recedes with amendments. Under the conference agreement, section 170 of the code is amended by inserting after subsection (f) (added by subsec. (e) of sec. 209 of the bill) a new subsection (g).

Paragraph (1) of such new subsection (g) provides that if the taxable year begins after December 31, 1963—

(A) section 170(b)(1)(C) shall apply only at the election of the taxpayer; and

(B) in determining whether the 90-percent requirement is satisfied in the taxable year and in 8 of the 10 preceding taxable years, the amount of the charitable contributions for the taxable year (and for all prior taxable years beginning after December 31, 1963) is to be determined without the application of section 170(b)(5) of the code (carryover of certain excess contributions by individuals, added by Senate amendment No. 37) and solely by reference to the charitable contributions which are described in paragraph (2) of new subsection (g).

If the taxpayer elects to have section 170(b)(1)(C) apply for the taxable year, then for such taxable year, the deduction under section 170(a) of the code applies only with respect to charitable contributions which are described in paragraph (2) of new subsection (g). In addition, no amount of charitable contributions made in the taxable year or any prior taxable year may be treated under section 170(b)(5) as having been made in the taxable year or in any succeeding taxable year.

Under the conference agreement, the charitable contributions, which are referred to in paragraph (1) and described in paragraph (2) of new subsection (g), which qualify for application of the unlimited charitable contribution deduction are—

(A) any charitable contribution described in section 170(b)(1)(A) of the code;

(B) any charitable contribution, not described in section 170(b)(1)(A) of the code, to an organization described in section 170(c)(2) of the code (certain organizations organized and operated exclusively for religious, charitable, scientific, literary, or educational purposes or for the prevention of cruelty to children or animals) substantially more than half of the assets of which is devoted directly to, and substantially all of the income of which is expended directly for, the active conduct of the activities constituting the purpose or function for which it is organized and operated (as distinguished from making contributions to other organizations organized and operated for such purpose or function);

(C) any charitable contribution, not described in section 170(b)(1)(A) of the code, to an organization described in section 170(c)(2) of the code which meets the requirements of new subsection (g)(3) with respect to such charitable contribution; and

(D) any charitable contribution taken into account under existing section 170(b)(1)(C) of the code payment of which is made on or before the date of the enactment of the bill.

Under the conference agreement, a contribution to an organization which is referred to in new subsection (g)(2)(C) qualifies only if such

organization meets the two requirements described in new subsection (g)(3) with respect to such contribution. The first of such requirements is that—

(A) not later than the close of the third year after the organization's taxable year in which the contribution is received (or before such later time as the Secretary of the Treasury or his delegate may allow upon good cause shown by such organization), such organization expends an amount equal to at least 50 percent of such contribution for—

(i) the active conduct of the activities constituting the purpose or function for which it is organized and operated (as distinguished from making contributions to other organizations organized and operated for such purpose or function),

(ii) assets which are directly devoted to such active conduct,

(iii) contributions to organizations which are described in section 170(b)(1)(A) of the code or in paragraph (2)(B) of the new subsection (g), or

(iv) any combination of the foregoing.

If an amount expended as provided in subparagraph (A) is used to qualify any contribution under this 50-percent test, to the extent so used such amount may not be used as an expenditure for purposes of qualifying another contribution under subparagraph (A), whether such other contribution was made by the same donor or by another donor.

The second of such requirements with respect to such contribution is that—

(B) for the period beginning with the beginning of the taxable year in which such contribution is received and ending with the close of the taxable year in which the 50-percent test is satisfied with respect to such contribution, such organization expends all of its net income (determined without regard to capital gains and losses) for the purposes described in clauses (i), (ii), (iii), and (iv) of paragraph (3)(A).

If the organization has shown, to the satisfaction of the Secretary of the Treasury or his delegate, that good cause exists for extending the period during which the organization must expend an amount equal to 50 percent of the contribution in question, and the Secretary or his delegate allows such an extension, the requirement that the organization must expend all of its net income applies with respect to the organization's net income for the period beginning with the beginning of the taxable year in which such contribution is received and ending with the close of the taxable year in which it expends an amount equal to 50 percent of such contribution. Thus, for example, if the Secretary of the Treasury or his delegate extends the time within which an organization may expend an amount equal to at least 50 percent of a contribution until the close of the fifth taxable year after the organization's taxable year in which the contribution is received and the 50-percent test is satisfied during such fifth year, the requirement of subparagraph (B) is satisfied only if the net income for the 6-year period is expended as required by subparagraph (B). On the other hand, if the 50-percent test is satisfied during the taxable year in which the contribution is received, the requirement of subparagraph

(B) is satisfied if the net income for such taxable year is expended as required by subparagraph (B).

Under the conference agreement, subsection (g)(3) also provides the taxpayer with an election (to be exercised in accordance with regulations prescribed by the Secretary of the Treasury or his delegate) with respect to contributions made by him to an organization referred to in subsection (g)(2)(C). If the taxpayer so elects with respect to contributions made by him to such an organization, then, in applying the expenditure of income requirement with respect to contributions made by him to such organization during his taxable year for which such election is made and during all his subsequent taxable years, amounts expended by the organization after the close of any of its taxable years and on or before the 15th day of the third month following the close of such taxable year shall be treated as expended during such taxable year.

Under the conference agreement, for the contribution to qualify under section 170(b)(1)(C) of the code an additional requirement, as described in new subsection (g)(4) (disqualifying transactions), must be met by an organization referred to in new subsection (g)(2) (B) or (C). An organization shall be an organization referred to in new subsection (g)(2) (B) or (C) only if at no time during the period consisting of the organization's taxable year in which the contribution is received, its 3 preceding taxable years, and its 3 succeeding taxable years, such organization—

(A) lends any part of its income or corpus to;

(B) pays compensation (other than reasonable compensation for personal services actually rendered) to;

(C) makes any of its services available on a preferential basis to;

(D) purchases more than a minimal amount of securities or other property from; or

(E) sells more than a minimal amount of securities or other property to,

the donor of such contribution, any member of his family (as defined in section 267(c)(4) of the code), any employee of the donor, any officer or employee of a corporation in which he owns (directly or indirectly) 50 percent or more in value of the outstanding stock, or any partner or employee of a partnership in which he owns (directly or indirectly) 50 percent or more of the capital interest or profits interest. An exception to this provision makes it inapplicable to transactions which occurred on or before the date of the enactment of the bill.

Amendment No. 37: This amendment adds a new paragraph (5) to section 170(b) of the code to provide a 5-year carryover of certain charitable contributions made by individuals in taxable years beginning after December 31, 1963, where the amount of the contributions exceeds 30 percent of the taxpayer's adjusted gross income (computed without regard to net operating loss carrybacks). Under the amendment, the amount carried from a taxable year (and the amount thereof treated as paid in a succeeding taxable year) is determined solely by reference to charitable contributions to those organizations to which the additional 10-percent limitation applies.

The House recedes.

Amendment No. 41: The bill as passed by the House added a new subsection (f) to section 170 of the code to provide, in general, that payment of a charitable contribution which consists of a future interest in tangible personal property shall be treated as made only when all intervening interests in (and rights to the actual possession or enjoyment of) the property have expired or are held by persons other than the taxpayer (or certain related parties). The bill as passed by the House excepted from this rule any charitable contribution where the sole intervening interest or right is a nontransferable life interest reserved by the donor (or donors in the case of a joint gift by husband and wife). Senate amendment No. 41 strikes out this exception.

The House recedes on this amendment, but under the conference action on Senate amendment No. 42, the exception in the bill as passed by the House is restored with respect to transfers of future interests before July 1, 1964.

Amendment No. 42: Senate amendment No. 42 relates to the effective dates for the amendments made by the bill to section 170 of the code. In the case of individuals, the effective dates are the same as provided by the bill as passed by the House.

Under the bill as passed by the House, the amendments providing a 5-year carryover of charitable contributions made by corporations applied with respect to contributions which are paid (or treated as paid under sec. 170(a)(2) of the code) in taxable years beginning after December 31, 1963. Under Senate amendment No. 42, the amendments are to apply to taxable years beginning after December 31, 1963, with respect to contributions which are paid (or treated as paid under sec. 170(a)(2) of the code) in taxable years beginning after December 31, 1961.

The House recedes with an amendment (see discussion of Senate amendment No. 41).

LOSSES ARISING FROM EXPROPRIATION OF PROPERTY BY GOVERNMENTS OF FOREIGN COUNTRIES

Amendment No. 43: In general, the effect of this amendment is to permit a taxpayer to elect (for any taxable year ending after December 31, 1958) a 10-year carryover under section 172 of the code (relating to net operating loss deduction) of the portion of the net operating loss for such year attributable to a foreign expropriation loss for such year in lieu of the existing 3-year carryback and 5-year carryover. The 10-year carryover is not to apply unless the foreign expropriation loss equals or exceeds 50 percent of the net operating loss. The term "foreign expropriation loss" is defined to mean, for any taxable year, the sum of the losses sustained by reason of the expropriation, intervention, seizure, or similar taking of property by the government of any foreign country, any political subdivision thereof, or any agency or instrumentality of the foregoing. For this purpose, a debt which becomes worthless is to be treated as a loss to the extent of any deduction allowed under section 166(a) of the code.

The amount of any loss taken into account in determining a foreign expropriation loss may not exceed the taxpayer's adjusted basis for the property or bad debt in question since the foreign expropriation loss must arise from a loss described in section 165 of the code or a bad debt described in section 166; in both of these cases the deduction

allowed may not exceed the adjusted basis for purposes of the sale or other disposition of the property.

If a taxpayer makes the election for a taxable year ending before January 1, 1964, special rules are provided (with respect to any year affected by the election) to extend to the close of December 31, 1965, the time for making or changing any choice or election under sections 901 through 905 of the code (relating to foreign tax credit) and to extend to the close of December 31, 1968, the time for assessing deficiencies and filing claims for refund or credit of overpayments.

The House recedes with a technical amendment.

CARE OF DEPENDENTS

Amendment No. 46: The bill as passed by both the House and the Senate amends section 214 of the code (relating to deduction for expenses for care of certain dependents). Under the bill as passed by the House, section 214(b)(1) limited the deduction under section 214(a) for any taxable year to \$600, except that the \$600 limit was to be increased (to an amount not above \$900) by the amount of expenses incurred by the taxpayer for any period during which the taxpayer had two or more dependents (within the meaning of amended sec. 214(d)(1) of the code). In the case of a woman who is married, the increase in the limitation applied only for a period during which her husband is incapable of self-support because mentally or physically defective.

The effect of Senate amendment No. 46 is to retain the \$900 amount for a period during which the taxpayer had two dependents, to increase the \$900 amount to \$1,000 for a period during which the taxpayer had three or more dependents, and to omit the provision which would limit the application of these new amounts in the case of married women.

The House recedes with an amendment which retains the \$900 amount for a period during which the taxpayer had two or more dependents and omits the provision which would limit the application of this new amount in the case of married women.

Amendment No. 47: Under the bill as passed by the House, section 214(b) further provided, in the case of a woman who is married and in the case of a husband whose wife is incapacitated, that the deduction otherwise allowable under section 214(a)—

(1) would not be allowed unless the couple files a joint return; and

(2) would be reduced dollar for dollar to the extent that the couple's combined adjusted gross income exceeds \$4,500.

These conditions did not apply in certain specified situations. The effect of the Senate amendment No. 47 is to retain these conditions and exceptions, except that the Senate amendment substitutes \$7,000 for the \$4,500 amount.

The House recedes with an amendment which provides that this amount will be \$6,000.

DEDUCTION FOR POLITICAL CONTRIBUTIONS

Amendment No. 53: This amendment adds a new section 218 to the code. Section 218(a) provides that in the case of an individual, there shall be allowed as a deduction any political contribution pay-

ment of which is made by the taxpayer within the taxable year. Section 218(b) limits the deduction to \$50 for any taxable year, except that in the case of a joint return of a husband and wife the limit is \$100.

The Senate recedes.

100-PERCENT DIVIDENDS-RECEIVED DEDUCTION FOR MEMBERS OF
ELECTING AFFILIATED GROUPS

Amendment No. 54: This amendment adds a new section to the bill which amends section 243 of the code (relating to the deduction for certain dividends received by corporations) to provide a 100-percent deduction in the case of "qualifying dividends", and makes conforming technical amendments.

As amended, section 243(b)(1) defines the term "qualifying dividends" to mean dividends received by a corporation which (at the close of the day the dividends are received) is a member of the same affiliated group of corporations (as defined in sec. 243(b)(5)) as the corporation distributing the dividends, if (1) such affiliated group has made an election under section 243(b)(2) which is effective for the taxable years of its members which include such day; and (2) the dividends are distributed out of earnings and profits of a taxable year of the distributing corporation ending after December 31, 1963, with respect to which two requirements are satisfied. First, the distributing corporation and the recipient corporation must have been members of such affiliated group on each day of such taxable year. Second, an election under section 1562 (relating to election of multiple surtax exemptions) must not be effective for such taxable year.

Section 243(b)(2) prescribes rules for the making of an election and the taxable years to which it applies. Under section 243(b)(3), if an election by an affiliated group is effective with respect to a taxable year of the common parent corporation, then under regulations prescribed by the Secretary of the Treasury or his delegate—

(1) no member of such affiliated group may consent to an election under section 1562 for such taxable year;

(2) the members of such group will be treated as one taxpayer for purposes of making the elections under section 901(a) (relating to allowance of foreign tax credit) and section 904(b)(1) (relating to election of overall limitation); and

(3) the members of such affiliated group will be limited to (i) one \$100,000 minimum accumulated earnings credit under section 535(c) (2) or (3); (ii) one \$100,000 limitation for exploration expenditures under section 615 (a) and (b); (iii) one \$400,000 limitation for exploration expenditures under section 615(c)(1); (iv) one \$25,000 limitation on small business deductions of life insurance companies under sections 804(a)(4) and 809(d)(10); and (v) one \$100,000 exemption for purposes of estimated tax filing requirements under section 6016 and the addition to tax under section 6655 for failure to pay estimated tax.

Section 243(b)(4) provides for the termination of an election under section 243(b)(2) either by the filing by the group of a termination of the election or by the filing of a statement by a new member of the group that it does not consent to the election.

Section 243(b)(5) provides that the term "affiliated group" has the meaning assigned to it by section 1504(a) of the code except that for

purposes of the 100-percent dividends received deduction insurance companies subject to taxation under section 802 or 821 of the code are not to be excluded by section 1504(b)(2) from a group and are not to be considered under section 1504(c) as a separate group. Section 243(b)(6) provides special rules for insurance companies.

The amendments providing for the 100-percent dividends received deduction are to apply with respect to dividends received in taxable years ending after December 31, 1963.

The House recedes with a clerical amendment.

INTEREST ON LOANS INCURRED TO PURCHASE CERTAIN INSURANCE AND ANNUITY CONTRACTS

Amendment No. 56: The bill as passed by the House amended section 264 of the code to provide that, under certain circumstances, no deduction is allowed for interest on loans incurred or continued to purchase or carry certain life insurance, endowment, or annuity contracts. This new provision was to apply only in respect of contracts purchased after August 6, 1963. Under the Senate amendment No. 56 this new provision applies only in respect of contracts purchased after December 31, 1963.

The Senate recedes.

INTEREST ON INDEBTEDNESS INCURRED OR CONTINUED TO PURCHASE OR CARRY TAX-EXEMPT BONDS

Amendment No. 57: Section 265(2) of the code provides that no deduction shall be allowed for interest on indebtedness incurred or continued to purchase or carry obligations (other than certain obligations of the United States) the interest on which is wholly exempt from income tax. Under Senate amendment No. 57, a new sentence is added to section 265(2) to provide that, in applying the preceding sentence to a financial institution (other than a bank) which is subject to the banking laws of the State in which such institution is incorporated, interest—

(1) on face-amount certificates (as defined in sec. 2(a)(15) of the Investment Company Act of 1940 (15 U.S.C. 80a-2)) issued by the institution; and

(2) on amounts received by such institution to be applied toward the purchase of such face-amount certificates to be issued by the institution—

is not to be considered as interest on indebtedness incurred or continued to purchase or carry obligations the interest on which is wholly exempt from income tax to the extent that the average amount of such obligations held by such institution during the taxable year (as determined under regulations prescribed by the Secretary of the Treasury or his delegate) does not exceed 25 percent of the average of the total assets of the institution during the taxable year (as so determined). The new provision is to apply with respect to taxable years ending after the date of the enactment of the bill.

The House recedes with amendments. Under the conference agreement, the new sentence added to section 265(2) of the code by the Senate amendment is to apply only with respect to interest on face-amount certificates, and on amounts received toward the purchase of such certificates, issued by a face-amount certificate company

(registered under the Investment Company Act of 1940), and the percentage contained in the new sentence is reduced to 15 percent. In providing that the financial institutions specified in this provision are not to be denied interest deductions under section 265(2) of the code to the extent that the average amount invested by such an institution in tax-free obligations does not exceed 15 percent of the average of its total assets, it is not intended to imply that an interest deduction is to be denied because of investments in excess of the specified 15-percent level if the taxpayer establishes that indebtedness was not "incurred or continued to purchase or carry" these excess obligations. Nor is it intended that any inference with respect to years before the effective date of this provision be drawn from the enactment of this provision.

ALLOCATION OF CERTAIN TRAVELING EXPENSES

Amendment No. 58: Section 274(c) of the code provides that in the case of any individual who is traveling away from home in pursuit of a trade or business or in pursuit of an activity described in section 212, no deduction shall be allowed under section 162 or section 212 for that portion of the expenses of such travel otherwise allowable under such section which, under regulations prescribed by the Secretary of the Treasury or his delegate, is not allocable to such trade or business or to such activity. Such provision, however, does not apply to the expenses of any travel away from home which does not exceed 1 week or where the portion of the time away from home which is not attributable to the pursuit of the taxpayer's trade or business or to an activity specified in section 212 is less than 25 percent of the total time away from home on such travel. Senate amendment No. 58 strikes out subsection (c) of section 274 of the code, effective with respect to taxable years ending after December 31, 1962, but only in respect of periods after such date.

The House recedes with an amendment which, in effect, retains section 274(c) of the code but limits its application to foreign travel. Under the conference agreement, section 274(c) will only apply to an individual's travel outside the United States away from home. Travel from one point in the United States to another point in the United States is not to be considered travel outside the United States, even though it may constitute a portion of the trip in which the taxpayer travels to a point outside the United States. Section 274(c), as amended, will not apply to the expenses of any travel outside the United States away from home, if such travel does not exceed 1 week, or if the portion of the time of travel outside the United States away from home which is not attributable to the pursuit of the taxpayer's trade or business or an activity described in section 212 is less than 25 percent of the total time on such travel. Section 274(c), as amended, will apply with respect to taxable years ending after December 31, 1962, but only in respect of periods after such date.

ACQUISITION OF STOCK IN EXCHANGE FOR STOCK OF CORPORATION WHICH IS IN CONTROL OF ACQUIRING CORPORATION

Amendment No. 59: Under existing section 368(a)(1)(B) of the code, the acquisition by one corporation, in exchange solely for all or a part of its voting stock, of stock of another corporation qualifies as a

“reorganization” if, immediately after the acquisition, the acquiring corporation has control of such other corporation (whether or not such acquiring corporation had control immediately before the acquisition). Under Senate amendment No. 59, section 368(a)(1)(B) is amended to permit an acquiring corporation to exchange either its voting stock or the voting stock of a corporation which is in control of the acquiring corporation for the stock of another corporation. The amendment also makes technical and conforming changes. The amendments apply with respect to transactions after December 31, 1963, in taxable years ending after such date.

The House recedes with a clerical amendment.

RETROACTIVE QUALIFICATION OF CERTAIN UNION-NEGOTIATED MULTIEMPLOYER PENSION PLANS

Amendment No. 60: Section 401 of the code relates to qualified pension, profit-sharing, and stock bonus plans. Senate amendment No. 60 inserts a new subsection (i) in section 401.

The new subsection (i) applies to a trust forming part of a pension plan which has been determined by the Secretary of the Treasury or his delegate to constitute a qualified trust under section 401(a), and to be exempt from taxation under section 501(a), for a period beginning after contributions were first made to or for such trust. The new subsection (i) provides that where such a trust meets certain conditions, then it shall be considered as having constituted a qualified trust under section 401(a), and as having been exempt from taxation under section 501(a), for the period beginning on the date on which contributions were first made to or for such trust and ending on the date such trust first constituted (without regard to the new subsection) a qualified trust.

The conditions referred to in the preceding paragraph require that it be shown to the satisfaction of the Secretary of the Treasury or his delegate that: (1) Such trust was created pursuant to a collective bargaining agreement between employee representatives and two or more employers who are not related (determined under regulations prescribed by the Secretary of the Treasury or his delegate); (2) any disbursements made prior to the period for which the trust was determined to be qualified (without regard to the new subsection) substantially comply with the terms of the trust (and plan) as so qualified; and (3) prior to the period for which the trust was determined to be qualified (without regard to the new subsection) contributions were not used in a manner which would jeopardize the interests of the beneficiaries.

The new subsection (i) is to apply with respect to taxable years beginning after December 31, 1953, and ending after August 16, 1954, but only with respect to contributions made after December 31, 1954.

The House recedes with a clerical amendment.

QUALIFIED PENSION, ETC., PLAN COVERAGE FOR EMPLOYEES OF CERTAIN SUBSIDIARY EMPLOYERS

Amendment No. 61: This amendment adds a new section to the bill, relating to qualified pension, etc., plan coverage for employees of certain subsidiary employers.

Employees of foreign subsidiaries covered by social security agreements

Subsection (a) of the new section adds a new section 406 to part I of subchapter D of chapter 1 of the code.

(a) *Treatment as employees of domestic corporation.*—The new section 406(a) sets forth the rules relating to the treatment of certain employees of foreign subsidiaries who are covered under a social security agreement described in section 3121(l) of the code, entered into at the request of the domestic corporation, as employees of such domestic corporation. The new section 406(a) only applies in the case of a plan established and maintained by a domestic corporation which is a pension, profit-sharing, or stock bonus plan described in section 401(a) of the code, an annuity plan described in section 403(a) of the code, or a bond purchase plan described in section 405(a) of the code. The new section 406(a) provides that in the case of such a plan an individual who is a citizen of the United States and who is also an employee of a foreign subsidiary (as defined in sec. 3121(l)(8) of the code) of the domestic corporation shall be treated as an employee of such domestic corporation if certain requirements are satisfied.

The first of the requirements of the new section 406(a) is that the domestic corporation has entered into an agreement described in section 3121(l) of the code, relating to agreements entered into by domestic corporations with respect to foreign subsidiaries, and such agreement covers the foreign subsidiary of the domestic corporation in which the individual is employed.

The second requirement is that the qualified plan of the domestic employer must expressly provide coverage for the U.S. citizen employees of all foreign subsidiaries which are covered under the agreement described in section 3121(l) of the code which has been entered into by the domestic corporation.

The third requirement for qualification of an individual as an employee is that contributions under a funded plan of deferred compensation (whether or not such plan is a qualified plan) are not provided by any other person with respect to the remuneration paid to such individual by the foreign subsidiary.

(b) *Special rules for application of section 401(a).*—The new section 406(b) provides certain special rules for the application of section 401(a) of the code in the case of a plan which covers an individual who is treated as an employee of a domestic corporation under the new section 406(a).

Paragraph (1) of such section 406(b) provides certain rules regarding the application of section 401(a) (3)(B) and (4) of the code in the case of a plan which covers such an individual. Paragraph (1)(A) of section 406(b) provides that if such an individual is an officer, shareholder, or person whose principal duties consist in supervising the work of other employees of a foreign subsidiary of such domestic corporation, he shall be treated as having such capacity with respect to the domestic corporation. Paragraph (1)(B) of section 406(b) provides that the determination of whether an individual who is treated as an employee under the new section 406(a) is a highly compensated employee for purposes of section 401(a) (3)(B) and (4) of the code is made by treating such individual's total compensation (as computed in accordance with the provisions of par. (2) of sec. 406(b)) as compensation paid by the domestic corporation and by determining

such individual's status as a highly compensated employee with regard to such domestic corporation.

Paragraph (2) of the new section 406(b) sets forth the rules regarding determination of the compensation of an individual who is treated as an employee of a domestic corporation under section 406(a) of the code. Such rules are applicable whenever the compensation of such an individual is to be determined for the purpose of determining whether the plan satisfies the requirements for qualification set forth in section 401(a). Paragraph (2)(A) of section 406(b) provides that, for the purpose of applying section 401(a)(5) with respect to such an individual, his total compensation is the remuneration paid to him by the foreign subsidiary which would constitute his total compensation if his services had been performed for the domestic corporation treated as his employer. In addition, such paragraph (2)(A) provides that the portion of the individual's total compensation which constitutes his basic or regular rate of compensation shall be determined under regulations prescribed by the Secretary of the Treasury or his delegate.

Paragraph (2)(B) of section 406(b) provides that an individual who is treated as an employee under section 406(a) shall be treated as having paid the amount paid by such domestic corporation which is equivalent to the tax imposed by section 3101 of the code (relating to the tax imposed on employees) with respect to such individual.

(c) *Termination of status as deemed employee not to be treated as separation from service for purposes of capital gains provisions.*—Existing sections 402(a)(2) and 403(a)(2) of the code provide capital gains treatment for certain distributions after an employee's separation from service. The new section 406(c) provides that for purposes of applying section 402(a)(2) and section 403(a)(2) of the code with respect to an individual who is treated as an employee of a domestic corporation under section 406(a), such individual shall not be treated as separated from the service solely by reason of the fact that—

(1) the agreement entered into by such domestic corporation under section 3121(l) which covers the employment of such individual is terminated under the provisions of such section;

(2) such individual becomes an employee of a foreign subsidiary (as defined in sec. 3121(l)(8)) with respect to which an agreement described in section 3121(l) does not apply;

(3) such individual ceases to be an employee within the meaning of section 406(a) and becomes an employee of another corporation controlled by the domestic corporation; or

(4) the provision of the plan described in section 406(a)(2) is terminated.

(d) *Deductibility of contributions.*—The new section 406(d) relates to the deductibility of contributions made on behalf of an individual who is treated as an employee of a domestic corporation by reason of the provisions of section 406(a).

Paragraph (1) of the new section 406(d) provides that, for purposes of applying sections 404 and 405(c) with respect to contributions made to a qualified plan on behalf of an individual who is treated as an employee of a domestic corporation under section 406(a), no domestic corporation is allowed a deduction.

Paragraph (2) of the new section 406(d) provides that the amount which would be deductible under section 404 or 405(c) by the domestic

corporation if the individual who is an employee within the meaning of section 406(a) were its own employee is to be allowed as a deduction to the foreign subsidiary.

Paragraph (3) of the new section 406(d) provides that for the purpose of computing the amount deductible under section 404 or 405(c) any reference to compensation shall be considered to be a reference to the total compensation of such individual determined with the application of the rules set forth in the new section 406(b)(2).

The new section 406(d) also provides that any amount deductible by a foreign subsidiary under this section shall be deductible for its taxable year with or within which the taxable year of the domestic corporation ends.

(e) *Treatment as employee under related provisions.*—The new section 406(e) provides that an individual who is treated as an employee of a domestic corporation under the new section 406(a) is also to be treated as an employee of the domestic corporation with respect to certain related provisions dealing with the tax treatment of employees under the qualified plan.

Employees of domestic subsidiaries engaged in business outside the United States

Subsection (b) of the new section added by the Senate amendment adds a new section 407 to part I of subchapter D of chapter 1 of the code.

(a) *Treatment as employees of domestic parent corporation.*—The new section 407(a) sets forth the requirements which must be satisfied for a U.S. citizen who is employed by a domestic subsidiary engaged in business outside the United States to be treated as an employee of the domestic parent corporation.

Paragraph (1) of section 407(a) provides that for purposes of applying part I of subchapter D of chapter 1 of the code, with respect to a qualified plan described in either section 401(a), 403(a), or 405(a), of a domestic parent corporation, an individual who is a citizen of the United States and an employee of a domestic subsidiary (as defined in par. (2) of sec. 407(a)) of a domestic parent corporation shall be treated as an employee of the domestic parent corporation if two requirements are satisfied. The first of these requirements is that the plan of the domestic parent corporation must expressly provide coverage for U.S.-citizen employees of every domestic subsidiary (as defined in par. (2) of sec. 407(a)). The second requirement is that contributions must not be provided for the employee by any other person under a funded plan of deferred compensation (whether or not such plan is a qualified plan).

Paragraph (2) of the new section 407(a) provides certain definitions for purposes of section 407. Paragraph (2)(A) of section 407(a) defines the term "domestic subsidiary" for purposes of section 407. Such paragraph (2)(A) sets forth three requirements which must be satisfied in order for a domestic corporation to be classified as a "domestic subsidiary". First, the domestic parent corporation must own 80 percent or more of the outstanding voting stock of the subsidiary corporation. Second, 95 percent or more of the subsidiary corporation's gross income for the 3-year period immediately preceding the close of the taxable year of such subsidiary which ends on or before the close of the taxable year of the domestic parent corporation

(or for such part of such period during which the corporation was in existence) must be derived from sources without the United States. The third requirement is that 90 percent or more of the subsidiary corporation's gross income for such period (or such part) must be derived from the active conduct of a trade or business.

Paragraph (2)(B) of section 407(a) defines the term "domestic parent corporation" for purposes of section 407. A domestic parent corporation for purposes of such section is the domestic corporation which owns 80 percent or more of the outstanding voting stock of a domestic subsidiary (as defined in paragraph (2)(A)).

(b) *Special rules for application of section 401(a).*—The new section 407(b) provides special rules for the application of section 401(a). The rules are substantially the same as those prescribed in the new section 406 (b)(1) and (2)(A), except that the provisions of section 407(b) relate to individuals who are employees within the meaning of section 407(a).

(c) *Termination of status as deemed employee not to be treated as separation from service for purposes of capital gains provisions.*—The new section 407(c) relates to certain occasions when the termination of the status as an employee within the meaning of section 407 shall not be treated as separation from service for purposes of sections 402(a)(2) and 403(a)(2) of the code. The new section 407(c) provides that an individual who is an employee of a domestic subsidiary but who is treated as an employee of a domestic parent corporation under the new section 407(a) shall not be considered as separated from the service of the domestic parent corporation solely by reason of the fact that—

(1) the domestic subsidiary ceases, for any taxable year, to be a subsidiary within the meaning of section 407(a)(2)(A);

(2) such individual ceases to be an employee of a domestic subsidiary corporation and becomes an employee of another corporation controlled by the domestic parent corporation; or

(3) the plan no longer contains the provision described in section 407(a)(1)(A).

(d) *Deductibility of contributions.*—The new section 407(d) provides rules relating to the deductibility of contributions made on behalf of an individual who is an employee within the meaning of section 407(a). These rules are substantially the same as the rules in the new section 406(d), except that the provisions of section 407 relate to contributions on behalf of employees of domestic subsidiaries.

(e) *Treatment as employee under related provisions.*—The substantive provisions of the new section 407(e) are the same as the new section 406(e), except that the provisions of section 407 relate to the tax treatment of employees of domestic subsidiaries.

Technical amendments

Subsection (c) of the new section added to the bill makes a conforming change in a table of sections and amends section 3121(a)(5) of the code (relating to definition of wages) and section 209(e) of the Social Security Act (relating to definition of wages) to conform these definitions to the Internal Revenue Code of 1954, as amended by the Self-Employed Individuals Tax Retirement Act of 1962.

Effective date

Subsection (d) of the new section added to the bill provides that the new sections 406 and 407 added to the code shall apply with respect to taxable years ending after December 31, 1963. The technical amendments relating to the definitions of wages are to apply to remuneration paid after December 31, 1962.

The House recedes with a clerical amendment and a technical amendment.

EMPLOYEE STOCK OPTIONS AND PURCHASE PLANS

Amendments Nos. 64, 66, 67, 71, 74, 76, 81, 82, 83, 84, 85, 86, 87, and 88: The bill as passed both by the House and the Senate revises part II of subchapter D of chapter 1 of the code (relating to certain stock options). Under the bill as passed by the House, the revised part II was to apply to taxable years ending after June 11, 1963, and the determination as to whether an option is a qualified stock option, a restricted stock option, or an option granted under an employee stock purchase plan was (in general) to be based in part on whether the option was granted after June 11, 1963, or before June 12, 1963. These amendments change the June 11, 1963, and June 12, 1963, dates to December 31, 1963, and January 1, 1964, respectively.

The House recedes on these amendments.

Amendment No. 95: This amendment adds a special rule for determining whether options granted during the calendar year 1964 are (or may be changed during such year to become) qualified stock options. In the case of such an option, the requirements of paragraphs (1) and (2) of section 422(b) of the code (as added by the bill) are not to apply, and paragraph (1) of section 425(h) of the code is not to apply to any change in the terms of the option made before January 1, 1965, to permit such option to qualify under paragraphs (3), (4), and (5) of section 422(b). Paragraphs (1) and (2) of section 422(b) require a qualified stock option (1) to be granted pursuant to a plan which is approved by the stockholders and which includes the aggregate number of shares which may be issued under options, and the employees (or class of employees) eligible to receive options; and (2) to be granted within 10 years from the date the plan is adopted, or the date approved by the stockholders, whichever is earlier. Paragraph (1) of section 425(h) provides that, for purposes of part II of subchapter D of chapter 1, if the terms of any option to purchase stock are modified, extended, or renewed, such modification, extension, or renewal is to be considered as the granting of a new option.

The House recedes.

Amendment No. 70: Under the bill as passed both by the House and Senate, section 422(b)(5) of the code provides (in general) that an option may not be a qualified stock option unless such option by its terms is not exercisable while there is outstanding a prior qualified (or restricted) stock option issued to the individual to purchase stock in the employer corporation (or certain other corporations). Under this Senate amendment, section 422(b)(5) is not to apply if (1) the new option and all outstanding qualified (or restricted) stock options referred to in section 422(b)(5) are to purchase stock of the same class in the same corporation, and (2) the price payable under each

such outstanding option (as of the date of the grant of the new option) is not more than the option price of the new option.

The House recedes with a technical amendment.

Amendment No. 91: Under the bill as passed both by the House and the Senate, section 425(h)(3) of the code defines the term "modification" to mean (subject to certain exceptions) any change in the terms of the option which gives the employee additional benefits under the option. Under this amendment, in the case of an option not immediately exercisable in full, the term "modification" is not to include a change in the terms of the option to accelerate the time at which the option may be exercised.

The House recedes.

The attention of the conferees was called to a statement in the report on this bill of the Senate Committee on Finance to the effect that the use of a general term such as "key employees" is not a sufficient description of those eligible to receive options. The conferees, after having considered the matter, have concluded that the use of the term "key employees" should be considered a sufficient description of the class of employees from among whom a board of directors or any other executive committee of a corporation may select those to whom stock options may be granted.

The bill provides that a qualified stock option plan must be approved by stockholders within a 12-month period before or after its adoption and must provide the aggregate number of shares which may be issued under options and the employees (or class of employees) eligible to receive such options. It is intended that the remaining requirements relating to the terms of options granted under the new provisions may be met in such options. Inconsistencies between the plan and the options should, of course, be removed but a modification by the board of directors (or other executive committee of the corporation), under a power, expressed or implied, of the board (or committee) to modify the plan to conform with the requirements of law, will be sufficient. The granting period for qualified stock options under these circumstances will not be affected by such modifications.

INSTALLMENT SALES BY DEALERS IN PERSONAL PROPERTY

Amendment No. 96: This amendment adds a new section to the bill amending section 453(a) of the code (relating to reporting of income by dealers in personal property from sales on the installment plan). Under the amendment the existing provisions of section 453(a) are continued in the new paragraph (1) and new paragraphs (2) and (3) are added.

The new paragraph (2) provides that for purposes of paragraph (1), the term "installment plan" includes any plan which provides for the payment by the purchaser for the personal property sold to him in a series of periodic installments of an agreed part or installment of the debt due the seller.

The new paragraph (3) provides that for purposes of paragraph (1), the term "total contract price" includes all charges relative to the sale of the personal property, including the time price differential which represents the amount paid or payable for the privilege of purchasing

the personal property to be paid for by the purchaser in installments over a period of time.

The amendment to section 453(a) is to apply to taxable years beginning after December 31, 1963.

The House recedes with an amendment. Under the conference agreement, a new subsection (e) is added to section 453. New section 453(e) provides that, for purposes of section 453(a) of the code (which in effect allows a dealer in personal property to return on the installment basis income from sales of personal property on the installment plan), the term "installment plan" includes a revolving credit type plan which provides that the purchaser of personal property at retail may pay for such property in a series of periodic payments of an agreed portion of the amounts due the dealer under the plan, except that such term does not include any such plan with respect to a purchaser who uses his account primarily as an ordinary charge account. The new section 453(e) is to apply in respect of sales made during taxable years beginning after December 31, 1963.

TIMING OF DEDUCTIONS AND CREDITS IN CERTAIN CASES WHERE ASSERTED LIABILITIES ARE CONTESTED

Amendment No. 97: This amendment adds a new section to the bill, relating to the timing of deductions and credits in certain cases where asserted liabilities are contested.

(a) *Taxable year of deduction or credit.*—Subsection (a) of the new section amends section 461 of the 1954 code (relating to general rule for taxable year of deduction) and section 43 of the 1939 code (relating to period for which deductions and credits taken) to provide that if—

(1) the taxpayer contests an asserted liability;

(2) the taxpayer transfers money or other property to provide for the satisfaction of the asserted liability;

(3) the contest with respect to the asserted liability exists after the time of the transfer; and

(4) but for the fact that the asserted liability is contested, a deduction or credit would be allowed for the taxable year of the transfer (or for an earlier taxable year);

then the deduction or credit shall be allowed for the taxable year of the transfer.

(b) *Effective dates.*—Subsection (b) of the new section provides that except as provided by subsections (c) and (d) of the new section, the amendment to the 1954 code is to apply to taxable years to which the 1954 code applies and the amendment to the 1939 code is to apply to taxable years to which the 1939 code applies.

(c) *Election as to transfers in taxable years beginning before January 1, 1964.*—Paragraph (1) of subsection (c) of the new section added to the bill provides that the amendments made to section 461 of the 1954 code and section 43 of the 1939 code by subsection (a) shall not apply to any transfer of money or other property described in subsection (a) made in a taxable year beginning before January 1, 1964, if the taxpayer elects, in the manner provided by regulations prescribed by the Secretary of the Treasury or his delegate, to have such paragraph (1) apply. Such an election (1) must be made within 1 year after the date of enactment of the bill, (2) may not be revoked after the expiration of such 1-year period, and (3) shall apply to all transfers of money or

other property described in subsection (a) made in a taxable year beginning before January 1, 1964 (other than transfers described in par. (2) of subsec. (c)). In the case of any transfer to which paragraph (1) applies, the deduction or credit shall be allowed only for the taxable year in which the contest with respect to such transfer is settled.

Paragraph (2) of subsection (c) provides that paragraph (1) of subsection (c) shall not apply to any transfer if the assessment of any deficiency which would result from the application of the election in respect of such transfer is, on the date of the election under such paragraph (1), prevented by the operation of any law or rule of law.

Paragraph (3) of subsection (c) provides that if the taxpayer makes an election under paragraph (1) of subsection (c), and if, on the date of such election, the assessment of any deficiency which results from the application of the election in respect of any transfer is not prevented by the operation of any law or rule of law, the period within which assessment of such deficiency may be made shall not expire earlier than 2 years after the date of enactment of the bill.

(d) *Certain other transfers in taxable years beginning before January 1, 1964.*—Subsection (d) of the new section added to the bill provides that the amendments made to section 461 of the 1954 code and section 43 of the 1939 code by paragraphs (1) and (2), respectively, of subsection (a) shall not apply to any transfer of money or other property described in subsection (a) made in a taxable year beginning before January 1, 1964, if (1) no deduction or credit has been allowed in respect of such transfer for any taxable year before the taxable year in which the contest with respect to such transfer is settled, and (2) refund or credit of any overpayment which would result from the application of such amendments to such transfer is prevented by the operation of any law or rule of law. In the case of any transfer to which subsection (d) applies, the deduction or credit shall be allowed for the taxable year in which the contest with respect to such transfer is settled.

The House recedes with amendments. Under the conference agreement, the amendments to section 461 of the 1954 code (relating to general rule for taxable year of deduction) and section 43 of the 1939 code (relating to period for which deductions and credits taken) do not apply in respect of any credit against tax, and do not apply in respect of the deduction for income, war profits, and excess profits taxes imposed by the authority of any foreign country or possession of the United States.

It is the understanding of the conferees that the new provisions relating to the timing of deductions in certain cases where asserted liabilities are contested do not affect the taxable year in which the taxpayer may deduct items of a nature which are properly accruable in a year before the year of payment.

INTEREST ON CERTAIN DEFERRED PAYMENTS

Amendment No. 99: Subsection (c) of section 215 of the bill as passed by the House amended section 163(b) of the code to provide that if personal services are purchased under a contract providing for installment payments of part or all of the purchase price and if the contract provides for carrying charges but the portion thereof which constitutes interest cannot be ascertained, then the payments

under the contract are treated, for purposes of the interest deduction, as if they included interest equal to 6 percent of the average unpaid balance. Senate amendment No. 99 strikes this provision from the bill.

The House recedes with an amendment. Under the conference agreement, this provision is restored to the bill but is made applicable only with respect to educational services. For this purpose, the term "educational services" is defined as meaning any service (including lodging) which is purchased from an educational institution (as defined in section 151(e)(4) of the code) and which is provided for a student of such institution.

Amendment No. 100: Under the bill as passed by the House the new provisions relating to the treatment of interest on certain deferred payments (subsec. (a) of this section of the bill) were to apply to payments made after December 31, 1963, on account of sales or exchanges of property occurring after June 30, 1963. Senate amendment No. 100 provides, in addition, that the new provisions will not apply to a sale or exchange made pursuant to a binding written contract (including an irrevocable written option) entered into before July 1, 1963.

The House recedes with an amendment providing that the amendments made to section 163(b)(1) of the code with respect to certain payments for educational services are to apply to payments made during taxable years beginning after December 31, 1963.

PERSONAL HOLDING COMPANIES

Amendments Nos. 102, 105, 106, and 107:

Excluded lending and finance companies.—Under the bill as passed by the House, a lending or finance company was excluded from the definition of a personal holding company if it met four requirements: (1) At least 60 percent of its ordinary gross income must be derived directly from the active and regular conduct of a lending or finance business; (2) its personal holding company income (computed without regard to income qualifying under the 60-percent test; computed by including as personal holding company income the entire amount of the gross income from rents, royalties, produced film rents, and compensation for the use of corporate property by shareholders; and computed without regard to certain income from domestic subsidiaries described in sec. 542(d)(3) of the code), plus the interest described in section 543(b)(2)(C) of the code, must not exceed 20 percent of the ordinary gross income; (3) business deductions directly allocable to the active and regular conduct of its lending or finance business must equal or exceed the sum of 15 percent of its ordinary gross income up to \$500,000 plus 5 percent of its ordinary gross income between \$500,000 and \$1,000,000; and (4) loans to substantial shareholders must not exceed \$5,000 in principal amount. Senate amendment No. 102 deletes the provision that interest described in section 543(b)(2)(C) be included with the corporation's personal holding company income in applying the 20-percent-of-ordinary-gross-income test of section 542(c)(6)(B) which is described in clause (2) of the preceding sentence.

The House recedes on Senate Amendment No. 102.

Under the bill as passed by the House, section 542(d)(1)(A) of the code defined a lending or finance business, generally, as a business of

making loans, or purchasing or discounting accounts receivable, notes, or installment obligations. Senate amendment No. 105 amends the definition of a lending or finance business in section 542(d)(1) to include therein the business of rendering services or making facilities available to another member of the same affiliated group (as defined in sec. 1504) which is also in the lending or finance business. The House recedes with an amendment to Senate amendment No. 105. Under the conference agreement, the definition of a lending or finance business in section 542(d)(1) includes (1) rendering services or making facilities available in connection with the activities of making loans, or purchasing or discounting accounts receivable, notes, or installment obligations where such activities are carried on by the corporation rendering the services or making the facilities available, and (2) rendering services or making facilities available to another corporation which is a member of the same affiliated group and is engaged in the lending or finance business, if such services or facilities are related to the lending or finance business of such other corporation.

Under the bill as passed by the House, section 542(d)(1)(B)(i) provided that the term "lending or finance business" does not include the business of making loans, or purchasing or discounting notes or installment obligations, if the remaining maturity exceeds 60 months. Senate amendment No. 106 excepts from this exclusion loans, notes, and installment obligations evidenced or secured by contracts of conditional sale, chattel mortgages, or lease agreements, arising out of the sale of goods or services in the course of the transferor's or borrower's trade or business. The House recedes with a clarifying amendment.

Under the bill as passed by the House, section 542(d)(3) of the code provided that the lawful income received by a lending company which is in the small loan business (consumer finance business) from domestic subsidiary corporations which are themselves excepted from the definition of a personal holding company under section 542(c)(6) is not included for purposes of the 20-percent-of-ordinary-gross-income test of section 542(c)(6)(B). Senate amendment No. 107 changes this provision in two respects. First, the corporation receiving such income may be any lending or finance company which meets the 60-percent requirement of section 542(c)(6)(A). It does not have to meet the requirement of being in the small loan (consumer finance) business. Second, the payor corporation may be any member of the same affiliated group (as defined in sec. 1504 of the code) as the corporation receiving such income. Thus, the corporation receiving such income is not required to be the parent corporation of the payor corporation. However, the payor corporation must still meet the requirements of section 542(c)(6). The House recedes.

Amendments Nos. 108, 109, and 111:

Personal holding company income.—Subsection (d) of this section of the bill amends section 543(a) of the code (relating to personal holding company income). It also amends section 543(b) to provide definitions of the new terms "ordinary gross income," "adjusted ordinary gross income," "adjusted income from rents," and "adjusted income from mineral, oil, and gas royalties." Subsections (a) and (b) of section 543 are the same under the bill as passed by the House and under the Senate amendments except for changes in section 543(a)(2) (relating to rents), section 543(b)(2)(A) (relating to required adjust-

ments in the amount of gross income from rents includible in adjusted ordinary gross income), and section 543(b)(4) (defining "adjusted income from mineral, oil, and gas royalties").

Rents.—Senate amendment No. 108 modifies the 10-percent test in section 543(a)(2)(B) in the bill as passed by the House to provide that adjusted income from rents which meets the 50-percent requirement of section 543(a)(2)(A) shall not be treated as personal holding company income if the sum of the consent dividends (determined under sec. 565) and the dividends paid or considered as paid (determined under secs. 562 and 563) during the taxable year by the corporation to its shareholders equals or exceeds the amount, if any, by which the corporation's personal holding company income for the taxable year (computed without regard to such rents and compensation for the use of the corporation's property by its shareholders, and computed by treating copyright royalties and adjusted income from mineral, oil, and gas royalties as personal holding company income) exceeds 10 percent of the ordinary gross income as defined in section 543(b)(1). The effect of this modification in the 10-percent test applicable to rents is that this test shall be deemed to be met if the shareholders are required to include in their income as dividends an amount which is at least equal to the corporation's other personal holding company income which is in excess of 10 percent of total ordinary gross income. The House recedes.

Adjustment to rents included in adjusted ordinary gross income.—The bill as passed by the House defines, in paragraph (2) of section 543(b) of the code, the term "adjusted ordinary gross income" as the ordinary gross income adjusted as provided in subparagraphs (A), (B), and (C) of such paragraph. Senate amendment No. 109 amends subparagraph (A)(i) of section 543(b)(2) to provide that the gross income from rents derived from leases of tangible personal property which is not customarily retained by any one lessee for a period of more than 3 years shall not be reduced by allowable deductions for exhaustion, wear and tear, obsolescence, and amortization of such property. The House recedes.

Adjusted income from mineral, oil, and gas royalties.—Senate amendment No. 111 amends section 543(b)(4) of the code to specifically include production payments and overriding royalties as mineral, oil, and gas royalties for purposes of classification as personal holding company income under section 543(a). The House recedes.

Amendments Nos. 114, 116, 117, 119, 124, 129, and 131:

One-month liquidations.—The bill as passed by the House added a new subsection (g) to section 333 of the code to provide a special rule for 1-month liquidations of certain corporations. Senate amendment No. 114 amends paragraph (1) of section 333(g) to provide that it shall be applicable to corporate liquidations occurring before January 1, 1967 (instead of January 1, 1966, as in the bill as passed by the House). Senate amendments Nos. 116 and 117 provide that the capital gain treatment under section 333(g)(1)(B) shall not apply to certain earnings and profits to which the corporation succeeds after December 31, 1963 (instead of August 1, 1963). Senate amendments Nos. 119 and 124 amend paragraph (2) of section 333(g) to provide that it shall be applicable to liquidations occurring after December 31, 1966 (instead of December 31, 1965), of corporations which owe qualified indebtedness (as defined in sec. 545(c)) on January 1, 1964 (instead of on August 1, 1963). The House recedes.

Senate amendment No. 129 amends paragraph (3) of section 333(g), which describes the corporations to which paragraphs (1) and (2) of section 333(g) may apply, to provide that such a corporation is one which was not a personal holding company under section 542 of existing law for at least 1 of its 2 most recent taxable years ending before December 31, 1963 (instead of the date of the enactment of the bill) but which would have been a personal holding company under section 542 for such taxable year if the law applicable for the first taxable year beginning after December 31, 1963, had been applicable to such preceding taxable year. The Senate recedes.

Senate amendment No. 131 adds a new paragraph (4) to section 333(g) providing that if an election is made under section 333 by a qualified electing shareholder (as defined in sec. 333(c)) of a corporation and the shareholder states in such election that it is made on the assumption that the corporation is a corporation referred to in paragraph (3) of section 333(g), the election under section 333 shall have no force or effect if it is determined that the corporation is not a corporation referred to in section 333(g)(3). The House recedes.

Amendments Nos. 132, 133, 137, and 139:

Deduction for amortization of indebtedness.—The bill as passed by the House added a new subsection (c) to section 545 of the code which provides that, under certain circumstances, there shall be allowed as a deduction (in computing undistributed personal holding company income) amounts used, or amounts irrevocably set aside, to pay or retire qualified indebtedness. Senate amendment No. 133 amends proposed section 545(c)(3) to provide that the term “qualified indebtedness” includes outstanding indebtedness incurred by the taxpayer before January 1, 1964 (instead of before August 1, 1963, as in the bill as passed by the House). The House recedes.

Senate amendments Nos. 137 and 139 amend proposed paragraphs (5) and (6) of section 545(c) to provide that allowable deductions for depletion shall be taken into account to reduce the deduction allowed by section 545(c) and to reduce the qualified indebtedness under certain circumstances. The House recedes.

Senate amendment No. 132 amends proposed paragraph (2)(A) of section 545(c), which describes a category of corporations to which paragraph (1) of section 545(c) may apply, to provide that such a corporation is one which was not a personal holding company under section 542 of existing law for at least one of its two most recent taxable years ending before December 31, 1963 (instead of the date of the enactment of the bill, as in the bill as passed by the House) but which would have been a personal holding company under section 542 for such taxable year if the law applicable for the first taxable year beginning after December 31, 1963, had been applicable to such preceding taxable year. The Senate recedes.

Amendment No. 141:

Increase in basis with respect to certain foreign personal holding company stock or securities.—Subsection (j) of section 216 of the bill as passed by the House amended the code to provide for an increase in basis with respect to certain foreign personal holding company holdings. Such subsection (j) also contained provisions relating to the liquidation of certain foreign personal holding companies. Senate amendment No. 141 strikes out this subsection.

Under the conference agreement, the provisions of subsection (j) relating to an increase in basis with respect to certain foreign personal

holding company holdings are restored to the bill (with modifications) and the provisions relating to liquidation of foreign personal holding companies are omitted. Paragraph (1) of subsection (j) redesignates section 1022 of the code as section 1023 and inserts a new section 1022 (relating to increase in basis with respect to certain foreign personal holding company stock or securities).

Section 1014(b)(5) of the code provides that the basis of a share of stock or of a security in a foreign personal holding company, in the hands of a person acquiring it from a decedent by bequest, devise, or inheritance, or acquired by the decedent's estate from the decedent, is the lower of the fair market value of such share or security at the date of the decedent's death or the basis in the hands of the decedent. The new section 1022(a) provides that the basis determined under section 1014(b)(5) of a share of stock or a security, acquired from a decedent dying after December 31, 1963, of a corporation which was a foreign personal holding company for its most recent taxable year ending before the date of the decedent's death is to be increased by such share's or security's proportionate share of any Federal estate tax attributable to the net appreciation in value of all of such shares and securities.

The new section 1022(b) provides that a share's or security's proportionate share of the tax referred to in section 1022(a) is an amount which bears the same ratio to the amount of tax determined under section 1022(c)(2) as the appreciation in value of the share or security bears to the aggregate appreciation in value of all such shares and securities having appreciation in value.

The new section 1022(c) provides special rules and definitions to be used in determining the increase in basis provided in section 1022(a).

Paragraph (1) of section 1022(c) defines the term "Federal estate tax" to mean the tax imposed by section 2001 or 2101 of the code, reduced by any credit allowable with respect to a tax on prior transfers by section 2013 or 2102 of the code.

Paragraph (2) of section 1022(c) provides that the Federal estate tax attributable to the net appreciation in value of all shares of stock and securities to which section 1022(a) applies is the amount which bears the same ratio to the Federal estate tax as the net appreciation in value of all of such shares and securities bears to the value of the gross estate as determined under chapter 11 of the code. If, for estate tax purposes, alternate valuation is elected under section 2032 of the code, the value of the gross estate is to be determined under the provisions of such section.

Paragraph (3) of section 1022(c) provides that the net appreciation in value of all shares and securities to which section 1022(a) applies is the amount by which the fair market value of all shares and securities exceeds the adjusted basis of such property in the hands of the decedent.

Paragraph (4) of section 1022(c) defines "fair market value", for purposes of section 1022, to mean such value determined under chapter 11 of the code. If, for estate tax purposes, alternate valuation is elected under section 2032 of the code, fair market value is to be determined as of the appropriate date provided in such section.

The new section 1022(d) provides that section 1022 is not to apply to any stock or securities of a foreign personal holding company referred to in section 342(a)(2) of the code (relating to foreign corporations which were foreign personal holding companies in 1937).

Paragraph (2) of the new subsection (j) of the bill adds a new paragraph (21) to section 1016(a) of the code providing, in effect, that an increase in basis under section 1022 of the code is to be taken into account in determining the adjusted basis of property to which such provisions apply. Paragraph (3) of the new subsection (j) makes a clerical amendment to the table of sections to part II of subchapter O of chapter 1 of the code.

TREATMENT OF CERTAIN IRON ORE ROYALTIES

Amendments Nos. 151 and 153: The bill as passed by the House amended sections 631(c), 1231(b)(2), and 272 of the code to grant, in the case of certain disposals of iron ore with a retained economic interest, the same treatment which is now available in the case of certain disposals of coal with a retained economic interest. Under such treatment, the gain or loss attributable to such disposals of iron ore is treated as gain or loss from the sale of property used in the trade or business (as defined in sec. 1231(b) of the code).

Under the Senate amendments, this treatment of these disposals of iron ore with a retained economic interest provided by the bill as passed by the House is retained with two exceptions. First, the treatment is to be available only in the case of iron ore mined in the United States. Second, the treatment is not to apply to disposals of iron ore to certain related persons. One of these is where the disposal is to a person whose relationship to the party disposing of the iron ore is such that a loss would be disallowed under section 267 of the code (relating to losses, etc., with respect to transactions between related taxpayers) or section 707(b) (relating to certain sales or exchanges of property with respect to controlled partnerships). The other of these is where the disposal is to a person owned or controlled directly or indirectly by the same interests which own or control the person disposing of the iron ore.

The House recedes.

INSURANCE COMPANIES

Amendment No. 162:

(a) *Certain mutualization distributions made in 1962.*—Subsection (a) of the section added to the bill by this amendment amends section 809(d)(11) of the code (relating to certain mutualization distributions) to allow, as a deduction in the computation of gain from operations, distributions made in 1962, in acquisition of stock, pursuant to a plan of mutualization adopted by a stock life insurance company before January 1, 1958. Existing law permits a deduction for such mutualization distributions made in 1958, 1959, 1960, or 1961.

(b) *Accrual of bond discount.*—Subsection (b) of the section added to the bill by Senate amendment No. 162 relates to the accrual of bond discount by insurance companies subject to tax under part I or II of subchapter L of chapter 1 of the code (relating to life insurance companies and certain mutual insurance companies).

Paragraph (1) of this subsection (b) amends section 818(b) of the code (relating to amortization of premium and accrual of discount) to add a new paragraph at the end thereof. The new section 818(b)(3) provides that for taxable years beginning after December 31, 1962,

no accrual of discount shall be required under section 818(b)(1) on any bond (as defined in sec. 171(d) of the code) except in the case of discount which is interest to which section 103 of the code applies or is original issue discount (as defined in sec. 1232(b) of the code). The new section 818(b)(3) also provides that for purposes of section 805(b)(3)(A) of the code, the current earnings rate for any taxable year beginning before January 1, 1963, is to be determined as if the first sentence of the new section 818(b)(3) applied to such taxable year.

Paragraph (2) of subsection (b) of the section added to the bill by Senate amendment No. 162 amends section 822(d)(2) of the code (relating to the amortization of premium and accrual of discount in the case of mutual insurance companies other than life and other than certain fire, flood, and marine insurance companies) by adding a new sentence. This sentence provides that for taxable years beginning after December 31, 1962, no accrual of discount shall be required under section 822(d)(2) of the code on any bond (as defined in sec. 171(d) of the code).

(c) *Contributions to qualified pension, etc., plans.*—Subsection (c) of the section added to the bill by Senate amendment No. 162 amends section 832(c)(10) of the code (relating to deductions allowed in computing taxable income of certain insurance companies) to make it clear that in computing the taxable income of insurance companies subject to the tax imposed by section 831 of the code, there shall be allowed the deduction provided in part I of subchapter D of chapter 1 of the code (sec. 401 and following, relating to pension, profit-sharing, stock bonus plans, etc.). Under subsection (d) of this section of the bill, this clarification is to apply to taxable years beginning after December 31, 1953, and ending after August 16, 1954.

The House recedes on Senate amendment No. 162 with a clerical amendment.

REGULATED INVESTMENT COMPANIES

Amendment No. 163:

(a) *Time for mailing certain notices to shareholders.*—Subsection (a) of the section added to the bill by this amendment amends several provisions of part I of subchapter M of chapter 1 of the code (relating to regulated investment companies) to increase from 30 days to 45 days after the close of the regulated investment company's taxable year the time within which such company must mail certain notices to its shareholders. The sections of the code which are amended are sections 852(b)(3)(C), 852(b)(3)(D)(i), 853(c), 854(b)(2), and 855(c). The amendments are to apply to taxable years of regulated investment companies ending on or after the date of the enactment of the bill.

(b) *Certain redemptions by unit investment trusts.*—Subsection (b) of the section added to the bill by Senate amendment No. 163 amends section 852 of the code (relating to taxation of regulated investment companies and their shareholders) to add at the end thereof a new subsection (d). Under section 852(b) of existing law, a regulated investment company is allowed a deduction for dividends paid (as defined in sec. 561), other than capital gains dividends, in determining its investment company taxable income, and is allowed a deduction for dividends paid (as defined in sec. 561), determined with reference to capital gains dividends only, in computing that part of the excess

of its net long-term capital gain over net short-term capital loss on which it must pay a capital gains tax. Section 562(c) of the code (relating to preferential dividends) provides that the amount of any distribution shall not be considered as a dividend unless such distribution is pro rata, with no preference to any share of stock as compared with other shares of the same class, and with no preference to one class of stock as compared with another class except to the extent that the former is entitled to such preference.

The new section 852(d) added to the code by this amendment provides that in the case of a unit investment trust—

(1) which is registered under the Investment Company Act of 1940 and issues periodic payment plan certificates (as defined in such act); and

(2) substantially all of the assets of which consist of securities issued by a management company (as defined in such act);

section 562(c) of the code (relating to preferential dividends) shall not apply to a distribution by such trust to a holder of an interest in such trust in redemption of part or all of such interest, with respect to the net capital gain of such trust attributable to such redemption. The effect of this change is that, where the requirements of the new section 852(d) are met, the distribution is considered to be a distribution by the trust which qualifies for the deduction for dividends paid with respect to capital gains dividends under section 852(b)(3)(A) of the code. This change is to apply to taxable years of regulated investment companies ending after December 31, 1963.

The House recedes on Senate amendment No. 163 with a clerical amendment.

FOREIGN TAX CREDIT WITH RESPECT TO CERTAIN FOREIGN MINERAL INCOME

Amendment No. 164: This amendment inserts a new subsection (d) in section 901 of the code (relating to credit for foreign taxes). Paragraph (1) of the new subsection (d) provides that in certain cases the amount of foreign taxes described in section 901 (relating to amount of foreign tax allowed as a credit) which are paid or accrued during the taxable year with respect to mineral income to any foreign country (if the per-country limitation applies), or to all foreign countries (if the overall limitation applies), is to be reduced for purposes of computing the foreign tax credit.

The Senate recedes.

AMOUNTS RECEIVED FROM EMPLOYER ON SALE OF RESIDENCE OF EMPLOYEE IN CONNECTION WITH TRANSFER TO NEW PLACE OF WORK

Amendment No. 165: This amendment adds a new section 1003 to part I of subchapter 0 of chapter 1 of the code (relating to determination of amount of and recognition of gain or loss). Subsection (a) of the new section 1003 provides that if property used by the taxpayer as his principal residence is sold by the taxpayer or his spouse pursuant to a sales contract entered into within the forced sale period for such property, and if the taxpayer's employer, not later than 1 year after the date such sales contract was entered into, pays part or all of the sale differential on such property, then for

purposes of chapter 1 of the code the amount so paid is to be treated by the taxpayer or his spouse as an additional amount realized on the sale of such property to the extent that it does not exceed the lesser of (1) the sale differential, or (2) 15 percent of the gross sales price of such property.

Subsection (b) of the new section 1003 places certain limitations on the application of such section. Subsection (c) contains definitions and special rules for the application of the new section.

The new section 1003 is to apply to amounts paid with respect to sales contracts entered into after December 31, 1963, in taxable years ending after such date.

The Senate recedes.

CAPITAL GAINS AND LOSSES

Amendment No. 166: Section 219(a) of the bill as passed by the House amended the code to provide, in the case of taxpayers other than corporations, for the splitting of the long-term capital gain or loss category into two categories: (1) Class B capital gain or loss (in general, gain or loss from the sale or exchange of a capital asset held for more than 6 months but not more than 2 years); and (2) class A capital gain or loss (in general, gain or loss from the sale or exchange of a capital asset held for more than 2 years). Under the bill as passed by the House the deduction under section 1202 of the code for an excess of net long-term capital gain over net short-term capital loss was increased, in the case of adjusted class A capital gain (as defined in the bill), from 50 percent to 60 percent. It also provided that the alternative maximum capital gain tax provided by section 1201(b) of the code for taxpayers other than corporations was to be decreased, in the case of adjusted class A capital gain, from 25 percent to 21 percent.

Under existing section 1212 of the code, if a taxpayer has a net capital loss for a taxable year, the amount thereof is a short-term capital loss in each of the 5 succeeding taxable years, to the extent that such amount exceeds the total of any net capital gains of any taxable years intervening between the taxable year in which the net capital loss arose and such succeeding taxable year. Section 219(b) of the House bill in effect provided, in the case of a taxpayer other than a corporation, for an unlimited carryover of a net short-term, net class B, or net class A capital loss.

Senate amendment No. 166 strikes out this section of the bill as passed by the House.

Under the conference agreement, the House recedes with an amendment which adds a new subsection (b) to section 1212 of the code and makes technical changes in the definitions contained in paragraphs (9) and (10) of section 1222 of the code (relating to terms relating to capital gains and losses). Under paragraph (1) of the new subsection (b), in the case of a taxpayer other than a corporation, the excess of the net short-term capital loss over the net long-term capital gain for a taxable year, and the excess of the net long-term capital loss over the net short-term capital gain for such year are to be treated, respectively, as a short-term and a long-term capital loss in the succeeding taxable year. In determining a net short-term capital gain or loss of a taxable year, for purposes of computing a capital loss carryover to the succeeding taxable year, an amount equal to the excess of the capital losses allowable as a deduction for the taxable year by virtue of section 1211(b) of the code (relating to limitation on capital

losses) over the capital gains for such year is treated as a short-term capital gain occurring in such year. The effect of the latter rule is to reduce first the amount of a net short-term capital loss which may be carried over to a succeeding taxable year by the amount of capital losses which were allowed against ordinary income in the loss year and then to reduce the amount of a net long-term capital loss which may be carried over to the succeeding taxable year by any balance of the capital losses allowed against ordinary income in the loss year.

Paragraph (2) of new subsection (b) contains a transitional rule. The transitional rule provides, in effect, that, in the case of a taxpayer other than a corporation, any capital loss carryover which, under subchapter P of chapter 1 of the code as in effect immediately before the enactment of the bill is treated as a short-term capital loss in the first taxable year of a taxpayer beginning after December 31, 1963, is to be treated as a short-term capital loss in such year irrespective of the fact that such carryover may be composed in whole or in part of losses which were long-term capital losses in the year in which sustained.

Under the conference agreement, the amendments of sections 1212 and 1222 of the code are to apply to taxable years beginning after December 31, 1963.

ELECTION OF STANDARD DEDUCTION BY CERTAIN INDIVIDUALS WHO ELECT TO AVERAGE INCOME

Amendment No. 171: This amendment amends section 144 of the code (relating to election of standard deduction) to allow an individual who chooses the benefits of income averaging and whose adjusted gross income for the computation year is less than \$5,000 to elect the standard deduction.

The House recedes.

SMALL BUSINESS CORPORATIONS

Amendment No. 177: This amendment amends section 1371 of the code (defining "small business corporation" for purposes of subch. S of ch. 1 of the code, relating to election as to taxable status) by adding at the end thereof a new subsection (d) and amends section 1375 of the code (relating to special rules applicable to distributions of electing small business corporations) by adding at the end thereof a new subsection (e).

Under existing section 1371(a) of the code the definition of a "small business corporation" does not include any corporation which is a member of an affiliated group (as defined in sec. 1504 of the code). The new subsection (d) added to section 1371 of the code by Senate amendment No. 177 provides that, for purposes of section 1371(a), a corporation is not to be considered a member of an affiliated group at any time during the taxable year by reason of ownership of stock in another corporation if such other corporation has not begun business at any time on or after the date of its incorporation and before the close of such taxable year and if such other corporation does not have taxable income for the period included within such taxable year. The new subsection (d) is to apply to taxable years of corporations beginning after December 31, 1962.

The new subsection (e) added to section 1375 provides that under specified circumstances a distribution of money made by a corporation

on or before the 15th day of the 3d month following a taxable year for which such corporation is an electing small business corporation shall be treated for purposes of chapter 1 of the code as made on the last day of such taxable year. The new subsection (e) is to apply to taxable years beginning after December 31, 1957.

The House recedes with a clerical amendment.

VALIDITY OF TAX LIENS AGAINST PURCHASERS OF MOTOR VEHICLES

Amendment No. 193: Section 6323(a) of the code provides that the lien for taxes provided by section 6321 of the code is not to be valid as against any mortgagee, pledgee, purchaser, or judgment creditor until notice thereof has been filed by the Secretary of the Treasury or his delegate in the appropriate office specified in section 6323(a). Senate amendment No. 193 amends section 6323(c) of the code which contains a special rule as to the validity of tax liens in the case of securities to make that special rule applicable also with respect to motor vehicles. Under the Senate amendment, even though notice of lien has been filed in the manner prescribed in section 6323(a) of the code, the lien is not to be valid with respect to a motor vehicle as against any mortgagee, pledgee, or purchaser of such motor vehicle, for an adequate and full consideration in money or money's worth, if at the time of such mortgage, pledge, or purchase such mortgagee, pledgee, or purchaser is without notice or knowledge of the existence of such lien.

Senate amendment No. 193 also amends section 6324 of the code (relating to special liens for estate and gift taxes) to grant, in the case of the mortgage, pledge, or purchase of a motor vehicle, the same treatment which is now available in the case of the mortgage, pledge, or purchase of a security after a lien for estate or gift tax has arisen. Under the amendment, even though a special lien for estate or gift tax has arisen, such lien will not be valid with respect to any mortgagee, pledgee, or purchaser of a motor vehicle, for an adequate and full consideration in money or money's worth, if at the time of such mortgage, pledge, or purchase, such mortgagee, pledgee, or purchaser was without notice or knowledge of the existence of such lien.

Under the amendment, these changes to sections 6323 and 6324 of the code apply to mortgages, pledges, and purchases made after the date of the enactment of the bill.

The House recedes with an amendment. Section 6323 (relating to validity of tax liens against mortgagees, pledgees, purchasers, and judgment creditors) is amended by redesignating subsection (d) as subsection (e) and by inserting a new subsection (d) which provides that even though notice of lien imposed by section 6321 has been properly filed, the lien shall not be valid with respect to a motor vehicle as against a purchaser thereof for an adequate and full consideration in money or money's worth if (1) at the time of the purchase, the purchaser is without notice or knowledge of the existence of such lien, and (2) before the purchaser obtains such notice or knowledge, he has acquired possession of such motor vehicle and has not thereafter relinquished possession of such motor vehicle to the seller or his agent.

Section 6324 (relating to special liens for estate and gift taxes) is amended by adding a new subsection (d) which provides in effect that a lien for estate or gift taxes will be invalid as against a purchaser of a motor vehicle (as defined in sec. 6323 (d)(2)) for an adequate and full

consideration in money or money's worth if (1) at the time of the purchase, such purchaser is without notice or knowledge of such lien, and (2) before the purchaser obtains such notice or knowledge, he has acquired possession of such motor vehicle and has not thereafter relinquished possession of such motor vehicle to the seller or his agent.

Where a motor vehicle is purchased under the circumstances specified in the new section 6323(d) or 6324(d) of the code, the tax lien will abate with respect to the motor vehicle in question and will not be valid against any subsequent purchaser (or other successor in interest) of the vehicle.

The amendments to sections 6323 and 6324 of the code apply to purchases made after the date of the enactment of the bill.

EXCLUSION OF EARNED INCOME OF CERTAIN U.S. CITIZENS WHO ARE RESIDENTS OF FOREIGN COUNTRIES

Amendment No. 194: This amendment adds a new section to the bill amending section 911(c)(1) of the code (relating to limitations on amount of exclusion of earned income from sources without the United States). Existing section 911(c)(1) provides in effect that the amount excluded from the gross income of an individual under section 911(a) for any taxable year shall not exceed an amount which shall be computed on a daily basis at an annual rate of—

(A) except as provided in subparagraph (B), \$20,000 in the case of an individual who qualifies under section 911(a); or

(B) \$35,000 in the case of an individual who qualifies under section 911(a)(1) (relating to bona fide resident of foreign country), but only with respect to that portion of the taxable year occurring after such individual has been a bona fide resident of a foreign country or countries for an uninterrupted period of 3 consecutive years.

Senate amendment No. 194 amends section 911(c)(1)(A) to substitute "\$4,000" for the \$20,000 amount contained therein, and it amends section 911(c)(1)(B) to substitute "\$6,000" for the \$35,000 amount contained therein. Under the amendment these changes are applicable only with respect to taxable years beginning after December 31, 1963.

The House recedes with an amendment. Under the conference agreement, the limitation contained in subparagraph (B) of section 911(c)(1) of the code (relating to limitations on amount of exclusion of earned income from sources without the United States) is reduced from \$35,000 to \$25,000, effective for taxable years beginning after December 31, 1964.

DEFINITION OF HEAD OF HOUSEHOLD

Amendment No. 195: Section 1(b)(2) of the code defines a head of a household to be an individual who is not married at the close of his taxable year, is not a surviving spouse, and maintains a household which constitutes for the taxable year the principal place of abode of a dependent for whom the taxpayer is entitled to a deduction for the taxable year under section 151 of the code or (if not married at the close of the taxpayer's taxable year) a child, stepchild, or descendant. Except in the case of a father or mother, the household must be maintained as the home of the taxpayer. The effect of Senate amendment No. 195 is to remove the requirement that the household be maintained

as the home of the taxpayer and to provide that a taxpayer may qualify as a head of household with respect to a child, stepchild, or descendant only if he is a dependent for whom the taxpayer is entitled to a deduction for the taxable year.

The Senate recedes.

LOSSES ARISING FROM CONFISCATION OF PROPERTY BY CUBA

Amendment No. 196: Section 165(c)(3) of the code provides that, in the case of an individual, the deduction for losses provided by section 165(a) shall, except for losses incurred in a trade or business or in a transaction entered into for profit, be limited to losses of property arising from fire, storm, shipwreck, or other casualty, or from theft. Section 172(d)(4) of the code provides for purposes of the net operating loss that, in the case of a taxpayer other than a corporation, the deductions not attributable to a taxpayer's trade or business shall be allowed only to the extent of the gross income not derived from such trade or business. This limitation does not apply to a deduction allowable under section 165(c)(3) of the code.

Senate amendment No. 196 adds a new subsection (i) to section 165 of the code which provides that, for purposes of section 165(c)(3), losses of property which arise from expropriation, intervention in, or confiscation by Cuba shall be deemed to be losses from "other casualty."

The House recedes with an amendment which limits the application of the new section 165(i) to losses of tangible property and which makes technical and conforming changes.

CREDIT OR REFUND OF SELF-EMPLOYMENT TAX

Amendment No. 197: This amendment adds a new provision to the code to permit credit or refund of self-employment tax if, by reason of an agreement made pursuant to section 218 of the Social Security Act, the self-employment income of an individual (for a year with respect to which the period of limitation for filing claim for credit or refund has expired) is different from what it would be but for the agreement.

The House recedes with an amendment. Under the conference agreement, a new paragraph (5) is added to 6511(d) of the code. The new paragraph (5) applies both to agreements and modifications of agreements under section 218 of the Social Security Act. The new paragraph (5) also provides that if the allowance of a credit or refund of an overpayment attributable to such an agreement or modification is otherwise prevented by the operation of any law or rule of law other than section 7122 of the code (relating to compromises) such credit or refund may be allowed or made if claim therefor is filed on or before whichever of the following is the later: (A) the last day of the second year after the calendar year in which such agreement or modification is agreed to by the State and the Secretary of Health, Education, and Welfare, or (B) December 31, 1965.

EXTENSION OF TIME FOR PAYMENT OF ESTATE TAX ON VALUE OF REVERSIONARY OR REMAINDER INTEREST IN PROPERTY

Amendment No. 198: Section 6163(a) of the 1954 code provides that if the value of a reversionary or remainder interest in property is

included in the value of the gross estate for purposes of the estate tax, then the payment of the part of the estate tax attributable to the interest may (at the election of the executor) be postponed until 6 months after the termination of the precedent interest or interests in the property. A similar rule applies under the 1939 code. Under section 6163(b) of the 1954 code (or sec. 925 of the 1939 code), if the Secretary of the Treasury or his delegate finds that the payment of the tax at the expiration of the period of postponement would result in undue hardship to the estate, he may extend the time for payment for a reasonable period not in excess of 2 years from such period of postponement. Under Senate amendment No. 198, he would be permitted to extend the time for payment for a reasonable period or periods not in excess of 3 years from the expiration of such period of postponement.

The House recedes with clerical amendments.

CROP INSURANCE PROCEEDS

Amendment No. 199: This amendment adds a new subsection (c) to section 451 of the code (relating to general rule for taxable year of including items in gross income). Under the new subsection, in the case of insurance proceeds received as a result of destruction or damage to crops, a taxpayer reporting on the cash basis of accounting may elect to include such proceeds in income for the year following the year of destruction or damage provided he establishes to the satisfaction of the Secretary of the Treasury or his delegate that, under his practice, income from such crops would not have been reported in the year in which raised.

The Senate recedes.

TRANSPORTATION OF DISABLED INDIVIDUAL TO AND FROM WORK

Amendment No. 200: This amendment adds a new section 219 to the code. Section 219(a) provides that in the case of a disabled individual there shall be allowed as a deduction expenses paid during the taxable year for transportation to and from work to the extent that such expenses do not exceed \$600. Section 219(b) defines the term "disabled individual" and contains rules as to the submission of proof and certification of disability.

The Senate recedes.

ADDITIONAL PERSONAL EXEMPTIONS FOR DISABILITY

Amendment No. 201: This amendment adds a new subsection (f) to section 151 of the code (relating to allowance of deductions for personal exemptions). The new subsection (f) provides an additional exemption of \$600 for the taxpayer if he is a disabled individual (as defined in new subsec. (f)(3)) and an additional exemption of \$600 for the spouse if the spouse is a disabled individual (as so defined) and if the taxpayer is entitled to an exemption under section 151(b) of the code for such spouse.

The Senate recedes.

TIME FOR FILING CLAIM FOR REFUND OF TAXES PAID FOR GASOLINE USED ON FARMS

Amendment No. 202: The second sentence of section 6420(b) of the code provides that no claim shall be allowed under section 6420

of the code (relating to payments to ultimate purchaser of amounts equivalent to tax on gasoline used on a farm for farming purposes) with respect to any 1-year period (ending on June 30) unless filed on or before September 30 of the year in which such 1-year period ends. The effect of Senate amendment No. 202 is to permit the Secretary of the Treasury or his delegate to allow a claim filed after September 30 if the claimant had good cause for failing to file on or before such date.

The Senate recedes.

FACILITIES TO CONTROL WATER OR AIR POLLUTION

Amendment No. 203: Section 46(a) of the code provides, in general, that the credit against income tax allowed by section 38 (relating to investment in certain depreciable property) shall be equal to 7 percent of the qualified investment (as defined in sec. 46(c)). Under section 46(c)(1), the qualified investment with respect to any taxable year is the aggregate of the applicable percentage of the basis of each new section 38 property (or of the cost of each used sec. 38 property) placed in service by the taxpayer during the taxable year. The applicable percentage (33⅓, 66⅔, or 100 percent) is determined by reference to the useful life of the property. Senate amendment No. 203 adds a new paragraph (5) to section 46(c). Under the new paragraph, in the case of section 38 property which consists of facilities or equipment to control water or air pollution, the amount of the qualified investment shall be twice the amount determined under section 46(c)(1).

The Senate recedes.

INCOME TAX COLLECTED AT SOURCE

Amendments Nos. 204, 205, 206, 207, and 208: Section 302 of the bill as passed by the House provided a 15-percent withholding rate for wages paid during calendar year 1964 and a 14-percent withholding rate for wages paid after December 31, 1964. The bill as passed by the House also provided that the withholding rate on certain payments to nonresident aliens was to be 15 percent in the case of such payments made during calendar year 1964 and 14 percent in the case of such payments made after December 31, 1964.

Under the Senate amendments the withholding rate for wages and for the payments to nonresident aliens described in the preceding paragraph is 14 percent, effective with respect to wages paid (and such payments made) after the seventh day after the date on which the bill is enacted.

The House recedes.

W. D. MILLS,
CECIL R. KING,
THOS. J. O'BRIEN,
HALE BOGGS,
JOHN W. BYRNES,
VICTOR A. KNOX,

Managers on the Part of the House.

SECTION 24

**BRIEF SUMMARY OF THE PROVISIONS OF THE BILL
AS AGREED TO BY THE CONFEREES**

BRIEF SUMMARY OF THE PROVISIONS OF
H.R. 8363, "THE REVENUE ACT OF 1964"

AS AGREED TO BY THE CONFEREES

EIGHTY-EIGHTH CONGRESS
SECOND SESSION



FEBRUARY 28, 1964

Prepared by the Staff of the Joint Committee on
Internal Revenue Taxation

U.S. GOVERNMENT PRINTING OFFICE

WASHINGTON : 1964

BRIEF SUMMARY OF THE PROVISIONS OF H.R. 8363, "THE REVENUE ACT OF 1964"

(1) *Section 1: Declaration by Congress.*—It is the sense of Congress that the tax reduction provided by this bill, through stimulation of the economy, after a brief transitional period will raise (rather than lower) revenues and that these revenues should first be used to eliminate deficits and then the public debt. Congress also recognizes the importance of taking all reasonable means to restrain Government spending and urges the President to do the same.

(2) *Section 2:* The title of the bill is the Revenue Act of 1964.

(3) *Section 111: Individual rates.*—This reduces the rates of tax for individuals from a range of 20 to 91 percent to a range of 16 to 77 percent for 1964 and to a range of 14 to 70 percent for 1965 and subsequent years. This also splits the first bracket into four segments of \$500 each, taxed at 14, 15, 16, and 17 percent, respectively.

(4) *Section 112: Minimum standard deduction.*—This provides that, if higher than the 10-percent standard deduction, the "minimum standard deduction" is to be \$200 plus \$100 for each exemption (or \$300 for the first exemption and \$100 for each additional exemption). Thus, the exemption and minimum standard deduction for a single person will be \$900; for a married couple, \$1,600; and, for a married couple with two children, \$3,000.

(5) *Section 113: Related amendments.*—This conforms the tax rate applicable to the retirement income credit with the new rate schedules. Thus, it makes the rate applicable to the retirement income 17 percent for 1964 and 15 percent for subsequent years (instead of 20 percent). This also conforms the floor on the tax on nonresident aliens with the new rate schedule by raising from \$15,400 to \$19,000 in 1964 and to \$21,200 in 1965 and subsequent years the income level to which the regular, rather than the flat 30-percent rate, may be applicable.

(6) *Section 114.*—This is a cross-reference.

(7) *Section 121: Corporate rates.*—This reduces the overall corporate tax rate from the present 52 percent to 50 percent in 1964 and 48 percent in subsequent years. It also reduces the rate applicable to the first \$25,000 of corporate income, from the present 30 percent, to 22 percent for 1964 and subsequent years.

(8) *Section 122: Acceleration of corporate tax.*—This section provides for a speedup in the payment of corporate taxes. It applies only to tax liability in excess of \$100,000. At present, 50 percent of tax liability over \$100,000 is payable in two installments in September and December (for a calendar year corporation) in the current year of liability. This accelerates the other two payments now made after the end of the year with respect to this liability over \$100,000 so that by 1970 these two 25-percent payments also will be made in the current year of liability in April and June (for a calendar year corpo-

ration). This speedup is provided on a gradual basis. Thus, 1 percent of this liability in April and 1 percent in June will be reported for 1964, 4 percent for each of these two months in 1965, 9 percent for 1966, 14 percent for 1967, 19 percent for 1968, 22 percent for 1969, and the full 25 percent for 1970.

(9) *Section 123: Related amendments.*—This conforms other provisions in the Internal Revenue Code to the changes made with respect to corporate rates in section 121. The conforming amendments relate to the tax on mutual insurance companies (other than life) and receipts of minimum distributions for domestic corporations from their foreign subsidiaries.

(10) *Section 131: Effective date.*—This provides that the corporate and individual rate changes are to be effective generally for taxable years beginning after December 31, 1963.

(11) *Section 132: Fiscal year taxpayers.*—This provides that the individual and corporate rate changes for fiscal year taxpayers are to apply to that portion of their years ending after December 31, 1963.

(12) *Section 201: Dividend credit and exclusion.*—The 4-percent dividends received credit available to individuals is reduced to 2 percent for 1964 and repealed for subsequent years. The \$50 dividend exclusion is increased to \$100 for 1964 and subsequent years. This increase is from \$100 to \$200 for married couples where each spouse has sufficient dividend income or the two do jointly.

(13) *Section 202: Retirement income credit.*—This provides that a couple, both over 65, making a joint return may, at their election, have a total retirement income credit of \$2,286 applicable to the retirement income of either or both if either spouse meets the 10-year earned income requirement. The \$2,286 amount is required to be reduced by amounts received as tax-exempt pensions and annuities and by amounts representing adjustments for earned income. (These are the reductions applying to the \$1,524 ceiling under present law.)

(14) *Section 203: Investment credit.*—In the case of the investment credit, the provision requiring a downward adjustment in the basis of property eligible for depreciation, to the extent of the 7-percent investment credit, is repealed. Also Federal regulatory commissions are prohibited from requiring the “flowthrough” of any of the benefits of the investment credit to the customers of the regulated industries in the case of property eligible for the full 7-percent credit (mainly the transportation industries such as railroads, airlines, and pipelines). In the case of public utilities eligible only for the 3-percent credit (principally telephone and electric companies), the regulatory commissions are not to require the “flowthrough” of the benefits of the investment credit in any period of time shorter than the usual life of the asset involved. Other changes make the investment credit available in the case of elevators and escalators and increase the base on which the credit of the lessee is to be computed where dealers lease property eligible for the credit.

(15) *Section 204: Group term insurance.*—The employee exclusion for premiums on group term insurance furnished through the employer is limited to premiums paid on the first \$50,000 of coverage, and information reporting requirements are provided for those employees receiving more than \$50,000 of such insurance.

(16) *Section 205: Sick pay exclusion.*—Sick pay received after the taxpayer has been absent from work more than 30 days is to be

excluded from income up to \$100 a week. Within the 30-day period if the sick pay is 75 percent or less of the regular weekly rate, then up to \$75 a week may be excluded after an absence of 7 calendar days on account of injuries or illness, and from the first day without any waiting period, if the taxpayer is hospitalized at least 1 day in the first 7.

(17) *Section 206: Sale of residence.*—An exclusion from taxable income is provided for any capital gain attributable to the first \$20,000 of the sale price of a personal residence in the case of an individual age 65 or over who owned the house for 8 years and occupied it for 5 of them.

(18) *Section 207: State and local taxes.*—A deduction is denied in computing income subject to Federal tax for State and local taxes other than property taxes, income taxes, general sales taxes, and gasoline taxes. The principal taxes for which this denies a deduction are alcoholic beverage taxes, cigarette taxes, auto registration fees and licenses, and selective excise taxes.

(19) *Section 208: Casualty losses.*—The deduction for personal casualty and theft losses is limited to the amount in excess of \$100 per loss, in a manner somewhat similar to the treatment of “\$100 deductible” insurance.

(20) *Section 209: Charitable contributions.*—The following changes are made in the charitable contribution deduction:

(a) The additional 10-percent maximum deduction (above the 20 percent generally available) is made available generally for contributions to publicly supported organizations other than private foundations (presently it is available chiefly for churches, schools, and hospitals);

(b) The unlimited charitable contribution deduction is restricted to contributions to churches, schools, hospitals, and other publicly supported organizations and to a privately supported organization if (i) the organization is an operating charity or (ii) expends 50 percent of the contribution within 3 years after the year it was received (as well as all its net income during the period); in addition for a contribution to a privately supported organization to be deductible under this provision, the person making the contribution must not engage in certain disqualifying transactions with such organization;

(c) A 5-year carryover of charitable contributions (in excess of the amount currently deductible) is provided for individuals with respect to contributions to publicly supported organizations;

(d) The 2-year carryover of charitable contribution deductions for corporations is extended to 5 years (this is available for contributions made in 1962 and 1963 as well as subsequent years);

(e) Charitable contribution deductions for gifts of future interest made after June 30, 1964, in tangible personal property are denied until the gifts are completed.

(21) *Section 210: Expropriation losses.*—Businesses which have sustained substantial “foreign expropriation losses” after 1958 are permitted to carry such losses forward and apply them against income for a 10-year period. This is in place of the regular 3-year carryback and 5-year carryforward which will still remain available for other net operating losses.

(22) *Section 211: Medicines and drugs.*—The 1-percent limitation, or floor, on medicines and drugs, which must be taken into account in determining deductible medical expenses, is made inapplicable where the taxpayer or his wife is over 65 and also with respect to expenses for dependent parents over 65. This conforms the treatment with respect to the 1-percent limitation with that provided in the case of the 3-percent limitation for medical expenses generally.

(23) *Section 212: Child care.*—The child care deduction is revised—

(a) To make it available in the case of a husband whose wife is incapacitated or institutionalized;

(b) To make it available with respect to care for children up to age 13 (instead of 12);

(c) The maximum deduction allowable where there are two or more children is increased from \$600 to \$900; and

(d) The present limitation on family income in the case of a working wife eligible for this deduction is raised from \$4,500 to \$6,000 and is also made applicable in respect of husbands with incapacitated wives.

(24) *Section 213: Moving expenses.*—A deduction is allowed for certain moving expenses—transportation of household goods, transportation of the persons involved, and meals and lodging of the persons while in transit—for employees who are not reimbursed for these expenses and also for new employees. An exclusion of these items is already available in the case of old employees who are reimbursed.

(25) *Section 214: 100-percent dividend deduction.*—Affiliated groups of corporations, where there is an 80-percent common ownership, which are eligible to file a consolidated return but do not do so, are permitted to take a 100-percent deduction for intercorporate dividends received from other members of the group if the group agrees to be treated as a single entity for certain purposes, such as the \$25,000 surtax exemption determining what proportion of its taxes must be paid currently, etc.

(26) *Section 215: Bank loan insurance.*—An interest deduction is denied for amounts borrowed under a systematic plan to pay premiums on life insurance under policies purchased after August 6, 1963. The deduction is denied only if part or all of four of the first seven annual premiums are borrowed, the interest exceeds \$100 a year, the amounts borrowed were not unforeseen emergencies, or the amounts borrowed were not incurred in connection with a business.

(27) *Section 216: Face-amount certificate companies.*—Financial institutions subject to State banking laws and issuing face-amount certificates are not in any event to be denied a deduction for interest paid on these certificates under section 265(2) of the code (relating to interest indebtedness to carry tax-exempt obligations) to the extent the tax-exempt obligations do not constitute more than 15 percent of the average of the institutions' total assets.

(28) *Section 217: Travel expenses.*—The rule adopted in 1962 which disallows a portion of travel expenses for certain business trips combined with a vacation is modified to apply only in the case of travel outside the United States.

(29) *Section 218: Reorganizations.*—Tax-free status is provided for a stock-for-stock reorganization where the corporation acquiring the stock exchanges the voting stock of its parent corporation for the stock of the corporation being acquired.

(30) *Section 219: Multiemployer pension plans.*—Provision is made for the retroactive qualification of a pension plan under a multiemployer agreement with unions where the pension plan subsequently becomes qualified.

(31) *Section 220: Pension coverage of employees abroad.*—U.S. corporations are to be permitted to extend coverage under their qualified pension, profit sharing, et cetera, plans to U.S. citizens employed by foreign subsidiaries or by domestic subsidiaries operating outside the United States. Generally, this treatment will not be available in the case of foreign subsidiaries unless their employees are also covered for social security purposes.

(32) *Section 221: Stock options.*—The present tax treatment of employee stock options is further restricted, the principal additional restrictions being—

- (a) The stock when acquired must be held for 3 years or more;
- (b) The options must not be for a period of more than 5 years;
- (c) The option price must at least equal the market price of the stock when the option is granted;
- (d) Stockholders' approval of the options must be obtained; and
- (e) The extent to which new options may be exercised when old options are outstanding is restricted.

Separate tax treatment is provided for employee stock purchase plans which are available to all employees on a nondiscriminatory basis under rules which are substantially the same as under present law.

(33) *Section 222: Revolving credit.*—Installment sales treatment, under which the income is reported as the installment is received, is extended to revolving credit sales with respect to accounts not used as ordinary charge accounts.

(34) *Section 223: Contested items.*—Where a taxpayer contests a tax or other liability, he is, nevertheless, to be permitted a deduction for the item in the year in which he makes the payment if this is earlier than the year in which the contest is settled.

(35) *Section 224: Unstated interest.*—Where property is sold on an installment basis and either no, or very little, interest is charged on the installments, an appropriate amount of each installment is to be treated as if it were an interest payment. This section also provides that the interest element in certain installment payments for educational services (including lodging) may be treated as deductible interest.

(36) *Section 225: Personal holding companies.*—The percentage of passive income which may result in a company being classified as a personal holding company is reduced from 80 to 60 percent and amendments are made so that the personal holding company tax cannot be avoided by using rental income or oil or gas or mineral royalties (or working interests) to shelter substantial amounts of investment income, such as dividends and interest, from the personal holding company tax. Other restrictive amendments are also made. In addition, relief is provided for those companies which are not now personal holding companies, but would be under the new definitions. They are permitted favorable liquidation treatment in certain cases and also permitted a deduction in computing the personal holding company income for paying off existing debts. The section also provides that the basis of foreign personal holding company stock trans-

mitted at death is to be increased by the Federal estate tax attributable to appreciation in such stock.

(37) *Section 226: Aggregations of property.*—For the future, oil and gas leases and acquisitions may no longer be aggregated into “operating units” in determining what constitutes a property for purposes of computing the 50-percent net income limitation in the case of the percentage depletion deduction.

(38) *Section 227: Iron ore royalties.*—Capital gains treatment is extended to iron ore royalties where the iron ore is mined in the United States and the persons acquiring the ore are not related to the persons owning the property.

(39) *Section 228: Insurance companies.*—Three changes are made with respect to the income tax of insurance companies:

(a) The present rule providing for the deduction of certain distributions in 1958 through 1961 to shareholders pursuant to “mutualizations” of stock life insurance companies are extended to cover distributions in 1962;

(b) The requirement of present law that life insurance companies, and small mutual casualty insurance companies taxed on investment income only, are to ratably accrue market discount on purchased bonds as ordinary income is removed with the result that this will be treated as capital gains; and

(c) A change is made to assure the deductibility of qualified pension plan contributions of stock casualty insurance companies.

(40) *Section 229: Mutual funds.*—Regulated investment companies (i.e., mutual funds meeting certain requirements) are to be given 45 days after the close of their taxable year rather than 30 days to give notices to their shareholders as to the treatment by the shareholders of income received from the companies. In addition, a provision is added to the effect that distributions by a unit investment trust liquidating an individual's interests in the trust are not to be considered as giving rise to capital gains tax with respect to interests of other investors still in the trust.

(41) *Section 230: Capital loss carryovers.*—Individuals will have an unlimited carryover of capital losses. (Instead of the 5-year carryover of present law). However, these losses are to retain their character as short-term or long-term losses (rather than always being treated as short-term losses in the year to which they are carried.)

(42) *Section 231: Gains on real estate.*—In the case of real estate sold in the future, any depreciation deduction, to the extent the deductions exceed the depreciation which would have been allowable under the straight line method (but only to the extent of any gain), are to be treated as giving rise to ordinary income. However, in the case of property held more than 20 months, the amount treated as ordinary income is to be reduced by 1 percent for each month of holding over 20, with the result that these amounts are taxed as capital gains, rather than as ordinary income, in the case of real property held more than 10 years.

(43) *Section 232: Averaging.*—In place of the various specialized averaging provisions available under present law, what in effect amounts to averaging of income over a 5-year period is to be available for the income in the current year which exceeds the average of the income of the 4 prior years by more than one-third but only if the excess over this $1\frac{1}{3}$ amounts to more than \$3,000.

(44) *Section 233: Subchapter S corporations.*—In the case of subchapter S corporations, the income of which is treated essentially like partnership income, it is provided that certain distributions of money after the close of a taxable year may be treated as made during the year, in order to prevent the double inclusion of this income in the tax base of a shareholder; and that a corporation member of an affiliated group may elect subchapter S treatment if the only other members of the group are inactive subsidiary corporations.

(45) *Section 234: Consolidated returns.*—The 2-percent penalty tax which presently must be paid by corporations for the privilege of filing consolidated returns is repealed.

(46) *Section 235: Multiple surtax exemptions.*—For corporations where there is common control to the extent of 80 percent or more, the corporations involved may, as under present law, file a consolidated return (except in the case of brother-sister affiliations), or may claim one \$25,000 surtax exemption for the group, or alternatively may continue to each claim their own surtax exemption if a special tax of 6 percent is paid upon the first \$25,000 of the income of each of these corporations. In addition, under present law, corporations may not transfer directly all or part of their property (other than money) to another corporation if the other corporation was created for the purpose of acquiring the property and was not actively engaged in business at the time of the acquisition and still have each of these corporations eligible for its own surtax exemption. This treatment is extended to cover cases where the same result is obtained indirectly as well as directly and also where the result is obtained where five or fewer individuals who control a corporation transfer property directly or indirectly to a transferee corporation.

(47) *Section 236: Tax liens.*—A purchaser (but not a mortgagee or pledgee) of a motor vehicle who acquires possession will not be subject to a Federal tax lien against the motor vehicle, notice of which has been publicly filed unless he has actual knowledge of the existence of the lien.

(48) *Section 237: Earned income of U.S. citizens abroad.*—In the case of U.S. citizens who are present in a foreign country for 17 out of 18 consecutive months, or who are bona fide residents of a foreign country for not more than 3 years, the limitation on the exclusion from gross income is continued at \$20,000; but in the case of a U.S. citizen who is a bona fide resident of a foreign country for more than 3 years the exclusion is to be \$25,000 after 1964 (instead of \$35,000).

(49) *Section 238: Cuban seizures of nonbusiness property.*—A deduction for losses occasioned by the seizure, by Cuba, of personal residences (and other tangible nonbusiness property) is made available prospectively by treating such losses as losses arising from a casualty.

(50) *Section 239: Refund of self-employment tax.*—This permits persons who paid self-employment tax and who are later covered for the same period by a retroactive social security agreement entered into by a State to obtain a refund of the self-employment tax. Employees may already obtain a refund of the social security taxes paid by them in this situation.

(51) *Section 240: Estate tax on reversionary or remainder interest.*—This provides 3 years (rather than 2) after a precedent interest terminates for the payment of estate tax with respect to reversionary or remainder interests if earlier payment results in undue hardship.

(52) *Section 301: Optional tax tables.*—Optional tax tables are provided for those with adjusted gross income of less than \$5,000 for the year 1964 and for 1965 and for subsequent years. These tables reflect the rate reductions for individuals referred to in section 111 above.

(53) *Section 302: Withholding.*—Provision is made for a withholding rate of 14 percent in lieu of the 18 percent applicable under present law. This is to apply to payments made after the seventh day following the date of enactment of this bill. Withholding rate tables to reflect this 14-percent withholding rate are also provided.

SECTION 25
HOUSE FLOOR DEBATE ON CONFERENCE REPORT
(From the Daily Congressional Record)

4147

REVENUE ACT OF 1964

Mr. MILLS. Mr. Speaker, I call up the conference report on the bill (H.R. 8363) to amend the Internal Revenue Code of 1954 to reduce individual and corporate taxes, to make certain structural changes with respect to the income tax, and for other purposes, and ask unanimous consent for the statement of the Managers on the part of the House to be read in lieu of the report.

The Clerk read the title of the bill.

The SPEAKER pro tempore. Is there objection to the request of the gentleman from Arkansas?

There was no objection.

The Clerk read the statement.

(For conference report and statement, see proceedings of the House of February 24, 1964.)

Mr. MILLS (interrupting the reading). Mr. Speaker, in view of the length of the statement, I ask unanimous consent that further reading of the statement be dispensed with.

The SPEAKER pro tempore. Is there objection to the request of the gentleman from Arkansas?

There was no objection.

Mr. MILLS. Mr. Speaker, I yield myself 10 minutes.

Mr. Speaker, it was 13 months ago yesterday, on January 24, 1963, that the late President Kennedy sent to the Congress his tax message. We are now reaching the final stages of legislative consideration of that tax message.

Before going into a discussion of the conference report itself, I wish to take this opportunity once again to state the implications of this legislation, which will be known as the Revenue Act of 1964, for the fiscal policy of the United States.

As we said last September, in our humble judgment this legislation meets the requirements of fiscal responsibility. It is a part of an overall program to conduct the affairs of the Federal Government in such a way that a balanced budget can be achieved in an economy which is growing rapidly, providing adequate employment and investment opportunities, making full use of its capital and human resources, and giving the fullest possible play to the initiative and venturesomeness of the private sector of the economy.

This bill has been referred to as a historic piece of legislation. It is that, Mr. Speaker, not merely because it provides the largest tax reduction in our history but also because of the fact that

it is explicitly aimed at achieving the objectives which have just been enumerated.

We cannot and should not, of course, expect miracles from this bill. It will not eliminate overnight all poverty in the United States and make depressed areas only an ugly memory. It will not immediately reduce unemployment below 4 percent and guarantee profitable operations for every single business conducted throughout the country. It will not for all time eliminate business cycles, nor will it overcome immediately all the economic dislocations occurring in this dynamic and technically progressive country. It will not provide an instant cure for our balance-of-payments deficits.

Mr. Speaker, this legislation will, however, contribute to and make possible a very substantial increase in the level of total economic activity in the country and thus increase the gross national product, and in turn it will contribute to fuller use of our growing labor force and stock of capital in the United States, determined not by Government decision but by private decisions. It will specifically increase the overall profitability of business and enhance the financial capacity and incentives of business for investment. It will increase the attractiveness of investment in the United States compared to investment abroad, and in this way materially reduce the net outflow of private long-term capital from the United States, which is, as we know, one of the major sources of our balance-of-payments problem.

This tax bill will greatly increase the prospects for success and reduce the costs of public and private programs for reducing poverty, eliminating depressed areas, and facilitating adjustments by labor and business to the dynamics of our economy.

All of us know, of course, that this is not the final word in the field of tax policies. This bill should be followed in the course of time by other bills aimed at the objective which this bill has in mind. Mr. Speaker, that objective can be accomplished if we will bear in mind that all that is required in return for doing so is the executive departments and the Congress and the American people working together to bring about very close and tight rein on the spending levels of Government.

I would take it, Mr. Speaker, that the American people in accepting this action by the Congress are hoping that we can make it one of the Nation's habits to believe in economy in operation of Government in order that the tax road avenue may not be discontinued or misused

in the future. We must be careful as we proceed after the enactment of this legislation, for even a 1-year detour from our determination to hold a tight rein on Federal expenditures can get us off this track and make impossible further

[P. 3425]

adjustments in the years ahead with the tax burdens that are borne by the American taxpayer.

Mr. Speaker, I feel that it is equally important in time, if circumstances will permit, for the Congress to take a look into the field of excise taxes, as Congress has in this legislation taken a look into the field of income taxes and brought about adjustments. There are those on the outside, Mr. Speaker, who will argue—and with a great deal of justification—that we can do as much through adjustments of excises in helping individual initiative and venturesomeness as we can do by adjusting rates of income taxes.

I hope, Mr. Speaker, that we shall keep in mind the pledge that we made as we vote for this conference report and as we voted for the bill last September, that is, keep in mind the pledge that we made to exercise all the possible restraint that we can on the spending side of Government so as to make these further cutbacks in tax policy possible.

Mr. HALLECK. Mr. Speaker, will the gentleman yield to me?

Mr. MILLS. I will be glad to yield to the gentleman from Indiana.

Mr. HALLECK. Of course, the step about to be taken today is a very considerable one. Will the gentleman agree with me if this conference report is adopted—and it is my opinion that it will be adopted—that it ought to mean for all of us who have some idea of fiscal responsibility, who do not want to see inflation take away whatever value there is in this tax cut, that we really have to tighten up our belts and vote against additional appropriations and vote to hold them down; and, what is more than that, vote against the additional built-in expenditures that are involved in so many of the programs that are proposed which call for more Federal spending?

Mr. MILLS. My friend from Indiana knows I have stated on many occasions the importance of holding the line on spending. I mean by that we not permit spending to rise, as revenues will rise following the enactment of this legislation, so that those increases in revenue will catch up with expenditures and make impossible a balanced budget. If we do that, and if we hold this line—and I differ with my friend in this re-

spect although I have not heard him comment and if I am misstating his thinking I will yield again—I think we have begun to hold that line. In the Congress I believe we have done this and I believe we have done this in the budget which has been submitted. This is an indication of a determination in other places that the Congress will hold this line.

The SPEAKER pro tempore. The time of the gentleman from Arkansas has expired.

Mr. MILLS. I yield myself 5 additional minutes.

Mr. HALLECK. Mr. Speaker, will the gentleman yield further?

Mr. MILLS. I yield to the gentleman from Indiana.

Mr. HALLECK. May I say to the gentleman from Arkansas that in my opinion the Congress of the United States here in the House of Representatives particularly did a very fine job in cutting down on appropriations last year. However, we have an additional road coming along. I am quite sure that there is still a lot of work to be done if we are to hold down spending in the coming year and avoid increased spending in subsequent years. That is what I believe to be our purpose here if we are to make this tax reduction bill meaningful.

Mr. MILLS. The gentleman is eminently correct, that we must be aware of what we are doing this year as well as in future years when we set the pattern of spending.

Mrs. GRIFFITHS. Mr. Speaker, will the gentleman yield?

Mr. MILLS. I am delighted to yield to the gentlewoman from Michigan.

Mrs. GRIFFITHS. I would like to ask the gentleman from Arkansas if in his opinion the intangibles property tax remains under this section deductible?

Mr. MILLS. The gentlewoman is referring to the tax imposed on intangible personal property in the State of Michigan?

Mrs. GRIFFITHS. Yes.

Mr. MILLS. The answer is "Yes"; those taxes would still be deductible for income tax purposes since they are either business expenses or expenses incurred in the present or possible future production of income.

Mrs. GRIFFITHS. Mr. Speaker, I ask unanimous consent to insert into the RECORD at this point an answer of Mr. Stanley S. Surrey, Assistant Secretary of the Treasury, on this subject.

The SPEAKER pro tempore. Is there objection to the request of the gentlewoman from Michigan?

There was no objection.
The letter referred to follows:

TREASURY DEPARTMENT,
Washington, D.C., December 6, 1963.
Hon. MARTHA W. GRIFFITHS,
House of Representatives,
Washington, D.C.

DEAR MRS. GRIFFITHS: Your letter to Secretary Dillon, dated November 7, has been referred to this office for reply.

Your letter encloses a copy of a letter from Mr. Henry T. Bodman, president of the National Bank of Detroit, which questions the continued deductible status of the Michigan intangibles tax under H.R. 8363, the Revenue Act of 1963.

A close examination of section 207 of H.R. 8363 indicates clearly that your opinion is correct; the Michigan intangibles tax would continue to be deductible. As Mr. Bodman notes in his letter, section 164(a) of the Internal Revenue Code of 1954 (as it would be amended by section 207 of H.R. 8363) provides, in the last sentence, for the deduction of State and local taxes which are paid or accrued during the taxable year in carrying on any activity described in section 212 (relating to expenses for production of income).

So far as here material, the activities described in section 212 are the production or collection of income and the management, conservation, or maintenance of property held for the production of income. The regulations promulgated under section 212 make clear that the section is interpreted broadly to cover, in general, expenses attributable to all property except property held for the production of tax-exempt income or as a hobby. Thus regulations section 1.212-1(b) provides:

The term "income" for the purpose of section 212 includes not merely income of the taxable year but also income which the taxpayer has realized in a prior taxable year or may realize in subsequent taxable years; and is not confined to recurring income but applies as well to gains from the disposition of property. For example, if defaulted bonds, the interest from which if received would be includible in income, are purchased with the expectation of realizing capital gains on their resale, even though no current yield thereon is anticipated, ordinary and necessary expenses thereafter paid or incurred in connection with such bonds are deductible. Similarly, ordinary and necessary expenses paid or incurred in the management, conservation, or maintenance of a building devoted to rental purposes are deductible notwithstanding that there is actually no income therefrom in the taxable year, and regardless of the manner in which or the purpose for which the property in question was acquired. Expenses paid or incurred in managing, conserving, or maintaining property held for investment may be deductible under section 212 even though the property is not currently productive and there is no likelihood that the property will be sold at a profit or will otherwise be productive of income and even though the property is held merely to minimize a loss with respect thereto.

Thus, in the usual case, the Michigan intangible tax would be deductible under the last sentence of amended section 164(a) of

the code without any consideration of whether it would also be deductible under paragraph 2 or 3 of amended section 164(a). However, in the case of State or local obligations, the interest on which is wholly excluded from income under section 102 of the code, the last sentence of section 164(a) would not apply. The Michigan intangible tax would nevertheless be deductible in such cases as a personal property tax specified in amended section 164(a)(2) of the code. Section 164(b)(1) of the code would define the term "personal property tax" as an ad valorem tax which is imposed on an annual basis in respect of personal property. There is no doubt that the Michigan intangible tax is imposed on an annual basis in respect of personal property. It is true that the Michigan intangible tax is imposed "on the privilege of ownership" (Mich. Comp. Stat. sec. 205.132). Nevertheless it is imposed "in respect of personal property" within the meaning of section 164(b)(1) of the code. This is made clear in the technical explanation of H.R. 8363 contained in the Report of the Committee on Ways and Means of the House of Representatives (H. Rept. 749, 88th Cong., 1st sess., p. A42):

"A tax may be considered to be imposed in respect of personal property even if in form it is imposed on the exercise of a privilege. For example, an annual ad valorem tax qualifies as a personal property tax although it is denominated a registration fee imposed for the privilege of registering motor vehicles or of using them on the highways."

There remains then only the question whether the Michigan intangibles tax, as it applies to municipal bonds, is an ad valorem tax. The term "ad valorem," as used in amended section 164(b)(1) of the code, is explained, at page A42 of House Report No. 749, meaning "substantially in proportion to the value of the personal property." The Michigan intangibles tax as it applies to municipal bonds is an ad valorem tax within this meaning. The tax is imposed, in the case of income-producing intangibles, at the rate of $3\frac{1}{2}$ percent of the income but in no event less than one-tenth of 1 percent of the face or par value of each item, and, in the case of non-income-producing intangibles, at the rate of one-tenth of 1 percent of said face or par value. In the case of municipal bonds or obligations, the measure of the tax ($3\frac{1}{2}$ percent of income or one-tenth of 1 percent of face value) is sufficiently related to the value of the property to be substantially in proportion to such value for purposes of section 164.

Thus, the Michigan intangibles tax, both as it applies to municipal bonds and as it applies to other property, will continue to be a deductible tax under H.R. 8363 and no amendment, such as suggested by Mr. Bodman, is necessary.

Sincerely yours,

STANLEY S. SURREY,
Assistant Secretary.

Mr. VANIK. Mr. Speaker, will the gentleman yield?

Mr. MILLS. I yield to the gentleman from Ohio.

Mr. VANIK. I would like to inquire of the distinguished chairman of the Committee on Ways and Means in connection with the new section relating to losses arising from expropriation of property by governments of foreign countries. Will you kindly advise me whether such losses will be measured from the loss to the taxpayer of the property expropriated or shall such losses relate to the alleged value of the property at the time of expropriation including such things as the appreciated value of mineral rights, loss of profit and future profits?

Mr. MILLS. The gentleman from Ohio is referring to the 10-year carryforward on these losses?

Mr. VANIK. Yes.

Mr. MILLS. The 10-year carryforward can be elected by a taxpayer in lieu of the present arrangement in law which provides for a 3-year carryback or a 5-year carryforward of operating losses generally. Under section 165 of the code which relates to property losses and section 166 of the code which relates to debt losses, it is quite clear that all the taxpayer gets in the way of losses resulting from expropriation of his business property is his adjusted basis in those properties; that is, what he paid for the properties, plus the improvements that he may have made to those properties, less depreciation—not what he may feel the property is worth, not even what it may be considered to be worth by those fixing a fair market value on the property. It is only his adjusted cost that he gets back.

I will say further to the gentleman that it merely substitutes for the existing rule a different carryover period.

(Mr. VANIK asked and was given permission to extend his remarks.)

Mr. VANIK. Mr. Speaker, the prime purpose of my question was to insure that the so-called Long amendment which would provide a 10-year tax carryforward with no carryback for corporations which have suffered expropriation losses would be limited in its effect to the actual "out of pocket" loss of such corporations.

In the report of the Senate Finance Committee dated January 28, 1964, it was pointed out that the purpose of this section is to provide assistance to those corporations which suffered expropriation under Castro. The committee report further says that the revenue loss to the Treasury would be approximately \$5 million in 1965, but it is expected to decline appreciably after 1970.

The primary beneficiaries of this amendment would be companies like the North American Sugar Co., formerly

known as the Cuban American Co., which could write off the expropriation credit against operating profits in this country. Other companies which would benefit are companies such as the American & Foreign Power Co. which suffered expropriation by the municipal government of Toberia in Buenos Aires Province. The American Foreign Power Co. and the International Telephone & Telegraph Co. also suffered expropriation losses in the State of Rio Grande do Sul in Brazil. These losses were relatively small and some compensation has been promised to offset expropriation.

Completely overlooked in the discussions before the Senate Finance Committee and the Senate itself are the losses of the Brazilian subsidiary corporation of the Hanna Corp. known as Companhia Mineracao Novo Limense which acquired the former St. John Del Re Mines in Brazil. In a statement in the Washington Post on September 19, 1963, an official of the Companhia Mineracao Novo Limense stated that the "area of the Hanna concessions in Brazil contained 4.6 billion tons of iron ore, plus bauxite and dolomite and that the total mineral reserves were worth some \$200 billion.

In view of the statement of the gentleman from Arkansas, the distinguished chairman of the Ways and Means Committee [Mr. MILLS], that the legislation has been amended to insure that expropriation carryforward credits are limited to the actual cost of expropriated investments less depreciation, the amendment is more acceptable. If a taxpayer were permitted to deduct his own estimated appreciated value of the expropriation, the "sky would be the limit." Such a tax loophole would be reprehensible.

Mr. KNOX. Mr. Speaker, will the gentleman yield?

Mr. MILLS. I would be glad to yield to the gentleman from Michigan.

Mr. KNOX. I should like to propound a question with reference to the Michigan intangible tax law and go into it in a greater degree. It is my understanding that regardless of who pays the intangible tax imposed by Michigan law, it would be a deductible item as far as a banking institution is concerned that assumes the responsibility.

Mr. MILLS. Whoever pays the tax.

Mr. KNOX. If the gentleman will yield further, whoever assumes the responsibility for the payment of the tax could use it as a cost of doing business and it would be a deductible item?

Mr. MILLS. Whoever paid the tax under the Michigan law would be en-

titled to a deduction. There is a statement in the report filed by the Senate accompanying the bill bearing on the deductibility of these taxes which I am sure the gentleman from Michigan has read. That makes it quite clear. *AS-1*

Mr. Speaker, I would like to turn now to the conference action on the Revenue Act of 1964 and outline for you the principal modifications which we have made in reconciling the differences between the House and the other body as to the bill.

First, however, I would like to make a few general comments about the bill as it came out of conference. I believe that this has been a very satisfactory conference. I believe that this has been a conference about which it can fairly be said that the bill which came out of the conference is better than either the House or Senate versions of the bill. In my opinion, the conferees generally have taken the better of both versions of the bill.

REVENUE EFFECT *AS-1*

Now let us look at the revenue implications of the bill. I am attaching at the end of my statement tables comparing in some detail the differences between the House, Senate, and conference versions of the bill. At this point, however, I would like only to compare the overall revenue magnitude of the bill as it emerges from conference with the House version of the bill. For this purpose, I shall concentrate on the calendar year 1965 tax liability since this is generally viewed as the year most nearly reflecting the full impact of the bill. These figures do not, however, take into account the stimulative or "feedback" effect of the bill.

In the calendar year 1965, when the bill generally is fully effective, the conference version is expected to result in a revenue reduction of about \$11.5 billion; \$9.1 billion of this is a reduction for individuals and \$2.4 billion a reduction for corporations. As passed by the House, this bill would have resulted in a reduction in liabilities in the calendar year 1965 of \$11.1 billion, of which \$8.8 billion would have gone to individuals and \$2.3 billion to corporations.

Put another way, this bill, as agreed to by the conferees, will result in an additional reduction of approximately \$300 million over and above the House version of the bill. Practically all of this \$300 million of additional reduction goes to individuals.

In the fiscal year 1964, before account is taken of its stimulative effect, the bill as agreed to by the conferees is expected to result in a revenue loss of \$1.6 billion.

After the "feedback" effect in that year the loss is expected to be reduced to \$1.4 billion. The figures in the fiscal year 1965 are expected to be \$8.5 billion before the "feedback" effect and \$4.5 billion after this effect. This, of course, illustrates the fact that the stimulative effect of this bill is expected to have its major impact in the fiscal year 1965 and subsequent years.

RATE REDUCTIONS *AS-2*

An important factor in accounting for the atmosphere in the conference was the fact that the major features of the House and Senate versions of the bill were the same. Thus, the other body retained the individual income tax rate reductions exactly as provided by the House—including splitting the first bracket into four new brackets and providing a range in rates for 1965 and subsequent years from 14 to 70 percent. The other body also retained the minimum [P. 3427]

standard deduction provided for individuals in the lower income brackets in the same form as it was passed by the House.

The only change in the rates made by the other body was to provide that the withholding tax rate of 14 percent, which the House bill would have provided for 1965 and subsequent years, would also be effective for 1964, commencing with the 8th day after the date of enactment of the bill. The House version of the bill would have provided a 15-percent withholding rate for 1964 and a 14-percent rate for 1965 and subsequent years. It was thought at the time of the House consideration that the 15-percent rate provided by the House bill would become effective as of January 1, 1964. However, the 18-percent withholding rate of present law has in fact continued in effect up to this time and presumably will continue until sometime early in March. Since the reductions for 1964 are effective January 1, 1964, to offset the high withholding rate in the first part of 1964, the 15-percent rate is needed for the remainder of the year. Therefore, your conferees agreed to the 14-percent withholding rate included in the Senate bill.

The other body also agreed to the corporate rate reduction provided by the House bill, which goes from 52 to 48 percent in 1965 and subsequent years. The Senate also retained the House provision which made an especially large decrease—from 30 percent down to 22 percent—in the corporate rate applicable to small business. In addition, the other body retained the acceleration in the payment of corporate taxes provided in the House bill.

DIVIDEND CREDIT

Still another major provision of the House bill which was retained by the other body was the reduction of the dividend credit to 2 percent in 1964 and its repeal for 1965 and subsequent years. Along with this the other body retained the larger dividend exclusion provided by the House.

DECLARATION OF POLICY

I am also glad to be able to report that, although the other body had stricken the declaration by Congress which we made in section 1 of the bill, your conferees were able to persuade the conferees of the other body to restore this provision. While this declaration of Congress has no specific statutory effect, nevertheless I believe that as an indication of congressional policy it has already become an important guidepost in our fiscal policy. This declaration recognizes that the tax reduction provided by this act will have an important stimulative effect on the economy, thereby raising revenues. It also directs that these additional revenues are to be used to decrease deficits and eventually to reduce the public debt. This declaration of Congress further provides that it is congressional policy to take all reasonable means of restraining public spending and urges the President to declare his accord with this objective.

As you will recall this declaration was an important consideration in the House, and I believe it has been an important factor in accounting for the decrease in Government spending reflected in the 1965 fiscal year budget recently presented to us by the President.

The retention of this statement of policy makes it clear that Congress is providing this tax reduction because through its stimulative effect on investment and the increase it will bring about in consumer spending, it will eventually lead to higher levels of economic activity and thereby increase rather than decrease revenues. Also, it is important because it expresses the congressional concern with expenditures levels and recognizes the need to restrain these levels, to the full extent consistent with the needs of the country.

Let me turn now to the provisions which your conferees accepted which differ from those appearing in the bill.

CAPITAL GAINS

One of the changes, Mr. Speaker, has to do with the elimination by the Senate of the provision passed by the House setting up a new system of capital gains treatment. You will recall that the House bill continued the 50-percent inclusion with a maximum of 25-percent rate on capital gains, which is in the

existing law, but added to that for assets which had been held for a period longer than 2 years a 40-percent inclusion with a 21-percent maximum rate.

Mr. Speaker, this was, I must admit, a very complicated provision of law. The Senate voted on the floor of the Senate, the vote I think was 56 to 25, to eliminate this provision and agreed to by the House conferees. We were told that the Senate Finance Committee would be perfectly willing to reconsider the matter at some future date if we could develop some plan that seemed to be equitable to that committee and also eliminate some of the complexities in the bill as it passed the House.

CAPITAL LOSS CARRYOVER

However, we did retain an important feature of the House bill in the area of capital gain and loss taxation. I am referring to the carryover of capital losses. Present law provides that capital losses, after having been offset against capital gains, can then be offset against ordinary income in the case of individuals to the extent of \$1,000. Any capital losses still remaining may be carried over to the next year, offset against capital gains in that year, and then to the extent of \$1,000 may be offset against ordinary income in that year. This procedure may be repeated for up to 5 years after the year in which the loss is incurred. The House bill would have provided for the indefinite carryforward of these capital losses in this manner, instead of limiting the carryforward to 5 years.

We believed that an indefinite loss carryforward for these losses encourages risk taking, which is so fundamental to the expansion of our economy. The Senate struck this provision from the bill but the House conferees have prevailed upon the Senate conferees to restore this House provision. I believe that this is an important provision and that its restoration will be an important factor in encouraging risk taking and in stimulating the economy generally.

RETIREMENT INCOME CREDIT

A second important conference change is in the area of the retirement income credit. Generally, the retirement income credit is coordinated with social security payments. Under present law, social security payments are not subject to income tax. The retirement income credit attempts to give a comparable exclusion from tax for those not receiving social security—or receiving reduced amounts of social security—to the extent of any other retirement income the individuals may have. However, under social security where a husband has the

appropriate number of quarters of coverage but the wife does not, not only is a social security payment made to the husband, but also a supplementary payment, of one-half the size of the husband's payment, is made with respect to the wife when she reaches retirement age. The retirement income credit, on the other hand, contains no similar supplementary allowance with respect to a wife where she does not have prior 10 years' earning experience. A provision added by the other body to this bill provides a retirement income credit of one-half the size of that going to the husband in such a case where the wife does not have any earnings experience or receives only a small retirement income credit. Your conferees found themselves in accord with this objective and have therefore agreed to this provision in the Senate version of the bill, but with important amendments so that this works fairly without regard to whether only the husband, or only the wife, happens to have the retirement income. In conference, we also found a way of incorporating this supplementary retirement income credit into the tax form without, we believe, seriously complicating the tax schedule.

GROUP TERM LIFE INSURANCE

Both the House and Senate versions of the bill provide for the inclusion in an individual's tax base of the cost of certain amounts of group term insurance provided an employee through arrangements established by his employer, to the extent that the employee does not himself pay for this insurance. The House version of the bill would have taxed the cost of group term insurance received by an individual to the extent the insurance protection exceeded \$30,000. The other body would have taxed the cost of this insurance to the individual where the protection was for more than \$70,000. The conferees have split the difference and set the level above which the cost of the insurance will be taxed at protection above \$50,000.

WAGE CONTINUATION PAYMENTS—SICK PAY

A fourth important modification relates to sick pay, or wage continuation payments. Under the House bill the exclusion for sick pay was limited to those cases where the individual was absent from work for 30 days or more and was available only with respect to up to \$100 a week received after the 30-day absence from work. The Senate would also provide a sick pay exclusion in certain cases during the first 30 days. The other body makes the sick pay exclusion available

[P. 3428]

where the sick payment is not more than 75 percent of the regular average weekly pay of the individual. Your conferees have accepted this provision but have modified it to provide that within this first 30 days the sick pay exclusion will only be available for up to the first \$75 of income. In addition, it will be available only after a 7-day waiting period, unless the individual is hospitalized, not only in the case of illnesses but in the case of accidents as well.

DEDUCTIBILITY OF STATE GASOLINE TAXES

A fifth important change is in the area of the deductibility of State taxes. The House provided that State taxes were to be deductible only in the case of income, property, and general sales taxes. This would have resulted in a revenue gain of some \$520 million. The other body would also have allowed deductions for gasoline taxes and automobile tag and driver's license taxes. This would have reduced the revenue gain to \$190 million, a loss from the House version of \$330 million.

This matter has been compromised by permitting gasoline taxes, as the Senate desired, to continue to be deductible but providing that automobile tag and driver's license taxes no longer will be deductible. This will result in a saving over the Senate version of the bill of \$110 million, or an overall revenue gain from present tax law of \$300 million.

UNLIMITED CHARITABLE CONTRIBUTION DEDUCTION

A sixth important area of change is the provision in present law relating to the unlimited charitable contribution deduction. This is available to those who in 8 out of the last 10 years have given 90 percent of their income to charity or paid it in Federal income taxes. The administration had initially recommended that this unlimited charitable contribution deduction be eliminated entirely, but the House had not done so.

The other body, however, felt that the unlimited charitable contribution deduction should not be available with respect to gifts to private foundations. They were concerned because in the case of these private foundations the individuals frequently were not completely parting with the funds and also because the contributions to these foundations frequently do not immediately find their way into actual charitable operations. Because of this the Senate made the unlimited charitable contributions unavailable unless the organization is one of several specified organizations such as churches, schools, or hospitals or alternatively is an organization "which nor-

mally receives a substantial part of its support—from a governmental unit—or from direct or indirect contributions from the general public.”

While the House conferees recognized the merit in the Senate position, nevertheless they feared that the Senate version was much too restrictive. It did not, for example, take into account the fact that many private foundations are themselves directly carrying on charitable functions—not just making gifts to other organizations—and that in these cases the funds are finding their way into actual charitable use almost immediately. In addition, the Senate version did not take into account the fact that in the case of many other private foundations the organization, either through activities it carries on itself, or through donations it makes to other organizations, is using the contributions for actual charitable purposes in a relatively short period of time.

Because of the factors I have sketched for you, the House conferees accepted the Senate amendments but with modifications. In addition to continuing the availability of the unlimited charitable contributions deduction in the case of contributions to churches, schools, hospitals, and other public-type organizations, the conference agreement further provides that the deduction is to be available in the case of two additional types of organizations which might be classed as private foundations.

The first of these private foundations which, under the agreement reached by the conferees, will still qualify for contributions by someone claiming an unlimited charitable contribution deduction I shall, for lack of a better term, refer to as an “operating” charity. The type of organization I am referring to here is one which devotes substantially more than half of its assets directly to the active conduct of the exempt charitable activities. It must also devote substantially all of its income to such a purpose. By the use of the term, “active conduct”, we mean that the organization must itself carry on the activity and not merely be a conduit for transferring the contributions to another organization which carries on the charitable activity. This, of course, does not mean that the organization has to completely part with ownership of the funds in question, since it may use the contributions to purchase assets which it uses to carry on its charitable, educational or similar function. For example, in developing this provision it was recognized that organizations such as Williamsburg Colonial, Inc., while still retaining title to the property purchased, nevertheless use

these properties for the purpose for which the organization is exempt. This is not intended as a year-by-year test, but rather looks to a period of time to determine whether an organization is devoting its assets and income in the manner indicated. Somewhat more leeway was allowed in the case of assets held than in the case of income to make allowance for the fact that some of these organizations must necessarily accumulate part of their contributions to build up an endowment fund which will enable them to carry on their exempt activities.

The second exception relates to a private foundation which during a 3-year period, beginning after the contribution is received, expends or uses at least half of the contributions received from those claiming an unlimited charitable contribution deduction for one of the following four purposes:

First. The active conduct of activities representing its exempt function or purposes—that is, direct operations rather than making grants to other charitable organizations;

Second. The purchase of assets directly devoted to such purpose;

Third. The making of contributions to organizations for which a 30-percent charitable contribution may be claimed under present law, or to the type of operating private foundations that I have just described; or

Fourth. Any combination of these uses.

In determining whether an organization has used 50 percent or more of its contributions for this purpose it is not intended that there be any tracing of the specific contribution. Instead, it is assumed that the first amount spent for any of the activities to which I have referred, is from the income of the organization for the year in which the contribution is received and in each of the years up to the end of the year in which the contribution is used for the specified purpose. Then, the next amounts considered as being spent are the contributions representing the amounts contributed by those claiming the unlimited charitable contributions. It is, of course, recognized that in some cases it may be desirable for the organization to retain all of these contributions, and perhaps the income of the organization as well, for a period of more than 3 years. This may arise, for example, where some organization, such as a school, is being asked to match a grant provided by one of these foundations, or where a survey is required before it is possible to determine the best way in which the funds should be spent. The conferees gave recognition to these

needs for retaining the contributions and income beyond the 3-year period by granting to the Secretary of the Treasury permission to allow the retention of the contributions and income for longer periods of time where the organization shows good cause for such a retention. It is not intended that the mere accumulation of the funds to earn income, and in that manner increase the size of the corpus would represent a good cause. Where this grant of authority for accumulation beyond the end of the 3-year period is given, the income of the subsequent years must also be expended or used for one of the four purposes I have previously outlined, as well as the income in the year of the contribution and 3 succeeding years.

These changes will mean that the donor of the contribution—the individual who is claiming the unlimited charitable contribution deduction—will have to claim the deduction on a tentative basis pending the organization satisfying all of these conditions. He may claim the deduction tentatively on his return and then if the organization complies with the law subsequently, the deduction becomes validated by this action. Should the organization not comply with these requirements, the individual's return would have to be revised to disallow the specified amount with respect to the unlimited charitable contribution deduction.

A-9-1

SURTAX EXEMPTIONS FOR CORPORATIONS

I would also like to make a statement with respect to an amendment to section

[P. 3429]

1551 of the code, relating to the disallowance of surtax exemptions. Under existing law, if a corporation transfers property other than money directly to a corporation which it controls and the transferee corporation was created for the purpose of acquiring this property or was not actively engaged in business at the time of this acquisition the Secretary of the Treasury or his delegate may disallow the \$25,000 surtax exemption or the \$100,000 accumulative earnings credit unless the transferee corporation establishes by the clear preponderance of the evidence that the securing of the exemption or credit was not a major purpose for the transfer. Thus, present law applies only to direct transfers of property other than money. This section is amended to include indirect transfers of property other than money. Cases have been presented to the conferees where a newly organized subsidiary—created by expanding, rather than merely changing the location of the business—in the ordi-

nary course of its business purchases merchandise from a centralized warehouse maintained by the parent corporation. In such a case it is not intended that any surtax exemption or accumulated earnings credit be disallowed under the amendment where a major purpose of the separate incorporation was not the securing of an additional surtax exemption.

CUBAN SEIZURE OF PERSONAL PROPERTY

Another amendment added by the Senate permits a deduction for losses occasioned by the seizure by Cuba of personal residences and other personal property, by treating these losses as losses arising from a casualty. This amendment was clearly intended to apply in the years 1959 and 1960, when most, if not all, of these expropriations in Cuba took place. However, through inadvertence when this amendment was offered, no provision was made for an effective date for the amendment, and as a result the amendment has only prospective application. To overcome this effective date problem, it is expected that subsequently legislation would be presented to the Congress to make this provision effective for the taxable years ending after December 31, 1958 and to consider the proper scope of such an amendment.

I have touched briefly on what I consider to be the major differences between the House version of the bill and the modifications agreed to by the conferees. With respect to the rest of the modifications, however, I would like to insert in the RECORD at this point a list of the more important modifications remaining which I have not discussed with you. This will be followed with a summary of the bill as agreed to by the conferees.

A-9- OTHER CONFERENCE AGREEMENTS

The major Senate amendments and modifications agreed to by the conferees which I have not already discussed are as follows:

First. The conferees deleted the provision of the House bill relating to the inclusion in gross income of reimbursement of medical expenses in excess of these expenses. This provision was thought unnecessary in view of the fact that the insurance commissioners in various States are presently attempting to obtain State legislation to give assurance that there will not be reimbursement in these cases in excess of the actual expenses.

Second. The House conferees agreed to a provision in the Senate version of the bill which provides for a 5-year carryover of certain charitable contributions made by individuals. In general, for purposes of measuring the amount

of the carryover the taxpayer is allowed to take into account only the contributions made to organizations which qualify for the 30-percent limitation.

Third. The House conferees agreed to a Senate amendment which deletes the provision which limited the denial of the deduction for charitable contributions in the form of future interests in tangible personal property to cases other than where the life interest was retained for the life or lives of the contributor or contributors.

Fourth. The effective date of the 5-year carryover of charitable contributions, which the House bill provided for corporations, was modified by the Senate so that contributions made in the taxable years beginning after December 31, 1961, will qualify for the carryover. The House conferees agreed to this change.

Fifth. The House conferees agreed to a Senate amendment providing a 10-year carryforward of expropriation losses in certain cases, rather than a 3-year carryback and a 5-year carryforward. The expropriation loss must be one incurred in a business and is to be available for losses incurred in years ending after December 31, 1958. The amount of any foreign expropriation loss in this case may not exceed the taxpayer's adjusted basis for the property in question, since the loss must arise either from a loss described in section 165 of the code or a bad debt described in section 166. In both of these sections the deduction allowed is limited to the adjusted basis of the property in question for purposes of the sale or other disposition of the property.

Sixth. The Senate modified the House provision relating to the child care deduction to provide that the maximum amount which may be taken as a deduction in such a case may amount to \$1,000 where there are three or more children and also make the child-care provision available in the case of working wives and husbands with incapacitated wives, where the joint income of the two amounts to \$7,000 or less, as contrasted to the \$4,500 or less under existing law. The conferees rejected the first two of these amendments with the result that the maximum amount which may be deducted for child care expenses will be \$600 where there is one dependent and \$900 where there are two or more dependents. In the case of the income limitation the conferees raised the \$4,500 limit of present law to \$6,000.

Seventh. The House conferees accepted a Senate amendment which provides that affiliated groups of domestic corporations, where there is an 80-per-

cent common ownership and the corporations are eligible to file a consolidated return but do not do so, may take a 100-percent reduction for intercorporate dividends received from another member of the group if the group agrees to be treated as a single entity for certain purposes such as the \$25,000 surtax exemption and the \$100,000 floor on the acceleration of corporate tax payments. In addition, life insurance companies and mutual casualty insurance companies which may not file consolidated returns with other companies—except companies of the same type—under this amendment are eligible for the 100-percent dividend deduction.

Eighth. A Senate amendment would have deleted the rule adopted in the 1962 legislation which disallowed a portion of travel expenses for certain business trips which are combined with vacation. The House conferees agreed to this amendment insofar as domestic travel is concerned, but retained present law with respect to the foreign portion of business-vacation trips abroad.

Ninth. The House conferees accepted a Senate amendment which provides tax-free status for "stock-for-stock" reorganizations where the corporation in question acquires the stock in exchange for the voting stock of its parent corporation.

Tenth. The House conferees accepted a Senate amendment which provides retroactive qualification of multiemployer pension plans created under collective bargaining agreements with employee representatives. For this retroactive qualification to be granted the pension plans subsequently must be qualified and in the retroactive period the organization must have met certain requirements, including a provision that contributions in that period must not have been used in a manner which would jeopardize the interest of the covered employees.

Eleventh. The House conferees, with minor modifications, accepted a Senate amendment which permits U.S. corporations to extend coverage under their qualified pension, profit-sharing, and so forth, plans to U.S. citizens employed by foreign subsidiaries or domestic subsidiaries operating outside of the United States. Generally, this treatment will not be available in the case of the foreign subsidiaries unless their employees are also covered for social security purposes.

Twelfth. The Senate made four relatively minor changes in the House-passed stock option provision which with technical modifications have been agreed to by your conferees. First, the new rules provided by the provision are to apply to

options granted after December 31, 1963, rather than after June 11, 1963. Second, where an option is issued after December 31, 1963, and before January 1, 1965, which does not meet the terms of a "qualified" option, a Senate amendment agreed to by the House conferees permits the modification of this option, to meet the new terms provided in the bill at any time before January 1, 1965, without this modification being considered as giving rise to a new stock option requiring a new option price. Third, the Senate [P. 3430]

ate provided an exception to the general rule that an option must not be exercisable while there is outstanding any qualified or restricted stock option which was granted to the employee at an earlier time. The Senate amendment, which has been accepted by the House conferees with modification, provides that where the option price of the new option is at least as high as the price of the outstanding previously issued options, the "reset" rule is not to apply. This has been modified so that those previously issued options need not have been exercised in such a case if their price was lower than that of the new option. Fourth, the Senate provided that an option which under its terms of grant is not immediately exercisable in full may be accelerated so that it may be exercisable either to a greater extent, or in full, without this being considered a "modification" requiring a new option price. This was agreed to by your conferees.

Thirteenth. The Senate adopted an amendment which extends installment sales treatment—under which income is reported as the installments are received—to all revolving credit sales of personal property and to time payment charges associated with revolving credit sales. Your conferees have agreed to a modification of this provision which provides that installment sales are to include revolving credit-type plans—and this term is defined—except that the term for this purpose is not to include any accounts which are used by the purchaser primarily as ordinary charge accounts. Regulations issued by the Treasury Department on this subject provide to some extent that revolving credit-type plans are to be treated as installment sales. However, these regulations deny installment treatment to the portion of such sales coming under what is known as the small sale rule. This provides that if the aggregate sales charged during a billing month to an account under a revolving credit plan do not exceed the required monthly payment, then none of the sales during this

billing month are considered to be sales on the installment plan. This amendment eliminates this rule. Instead, if the purchaser uses his account primarily as an ordinary charge account, such an account involved will not qualify for treatment under the installment method of accounting. One method of determining whether a purchaser is using his account primarily as an ordinary charge account which the Service ought to consider for this purpose to see if it is appropriate would be to determine whether the customer's aggregate revolving credit purchases during the year of the retailer for all billing periods in which the account is completely liquidated by the first payment in a subsequent billing period are more than one-half of his total revolving credit purchases for that year. In such a case the customer would be considered to have used his account primarily as an ordinary charge account. This determination could of course be made by the taxpayer on the basis of a sample of accounts, rather than on the basis of a complete audit of all accounts.

Fourteenth. The House conferees accepted a Senate amendment which provides that where a taxpayer contests a tax or other liability he is nevertheless to be permitted a deduction for the item in the year in which he makes a payment, if this is earlier than the year in which the contest is settled.

Fifteenth. The House version of the bill contained a provision making an interest deduction available for carrying charges separately stated which represent purchases of services. The interest deduction in this case, as in the case of tangible personal property purchases, may not exceed the carrying charge or, if lower, interest computed at 6 percent on the declining balance. The conferees instead of extending this provision to carrying charges arising from purchases of services generally, extended it to installment payments for educational services, such as those for tuition, fees, and lodging. A 11-2

Sixteenth. The Senate made a number of relatively minor amendments to the House-passed personal holding company provision. Those with respect to lending or finance companies your conferees accepted with minor modification. They also made two amendments relating to the treatment of rent for personal holding company purposes. For rent not to be classified as personal holding company income, under the House bill not more than 10 percent of the ordinary gross income of the company—excluding the rental income—could be personal holding company income. Under a Senate amendment, agreed to by your

conferes, this 10-percent test may be met where the company distributes to the shareholders any of this personal holding company income—other than rent—in excess of the 10-percent requirement. In addition to dividends paid out, distributions, for this purpose, include dividends paid in the next year to a limited extent and also consent dividends. In addition to the 10-percent test I have referred to, rental income not to be classified as personal holding company income must equal at least 50 percent of the adjusted gross income of the company. In applying this test, income is determined by reducing income for depreciation, amortization, personal property taxes, interest, and rent paid with respect to the rental property. A Senate amendment agreed to by your conferees provides that tangible personal property which is not customarily rented to any one lessee for any more than 3 years is not to be reduced by depreciation and amortization for this purpose. The House bill also provided in case of companies which would newly become personal holding companies that they could liquidate under certain specified rules at any time before January 1, 1966. The Senate advanced this date to January 1, 1967, and your conferees agreed to this amendment. Also, the House bill provided that indebtedness already existing on August 1, 1963, could be paid off and the payments would reduce income otherwise treated as personal holding company income subject to this tax at the corporate level. This date was also advanced to January 1, 1964, by the Senate and your conferees agreed to the change. A further modification with respect to the liquidation provision that I have referred to relates to the specific years which may be taken into account for determining whether a corporation, had the new rules been applied, "would have been" a personal holding company in one of two prior years. The 2 prior years under the conference agreement are to be the 2 years most recently ending before the date of enactment of this bill, which was the original House provision. / . / . /

Seventeenth. The House bill provided for an increase in basis where an individual died holding stock of a foreign personal holding company. The increase in the basis of the stock in this case is the estate tax paid which is attributable to unrealized appreciation in the value of this stock. This aspect of the House bill, although deleted by the Senate, has been restored by the conferees, but further provisions relating to liquidations of these foreign personal holding companies, together with the provision for

an increase in basis where a decedent has held property distributed in such a liquidation, have been deleted.

Eighteenth. The House made capital gains treatment available in the case of iron ore royalties. The Senate continued this provision but restricted this capital gains treatment to iron ore mined in the United States and also denied capital gains treatment to iron ore royalties received from certain related parties. Your conferees agreed to these Senate amendments. A 12-2

Nineteenth. The Senate added three provisions relating to insurance companies, all of which have been agreed to by your conferees. These amendments first, permit a deduction in 1962 for liquidating payments made to shareholders by stock life insurance companies which "mutualize"; second, treat market discount on bonds owned by life insurance companies and by small mutual fire and casualty insurance companies as capital gains when the bonds are sold or redeemed; and third, correct a clerical error in present law.

Twentieth. Your conferees agreed to two Senate amendments relating to regulated investment companies. They are to be given 45 days after the close of their taxable year, rather than 30 days, to notify their shareholders as to the treatment of certain income received from the company. In addition, distributions by a unit investment trust, liquidating an individual's interest in the trust, are not to be considered as giving rise to capital gains tax with respect to the interests of other investors still in the trust.

Twenty-first. Your conferees agreed to two amendments relating to subchapter S corporations, the income of which is treated essentially like partnership income. The modifications in existing law provide: first, that a corporate member of an affiliated group may elect subchapter S treatment if the only other members of the group are inactive, subsidiary, corporations; and second, that certain [P. 3431]

distributions of money made after the close of the taxable year may be treated as made during the year, in order to prevent the double inclusion of this income in the tax base of a shareholder.

Twenty-second. The Senate provided that a purchaser, mortgagee, or pledgee of a motor vehicle would not be subject to a Federal tax lien against the motor vehicle even though notice has been publicly filed unless the purchaser, mortgagee, or pledgee had actual knowledge of the existence of the lien. Your conferees agreed to this amendment with

modifications deleting the references to mortgagees and pledgees and applying this rule only in the case of purchasers who actually have possession of the motor vehicle in question.

Twenty-third. The Senate adopted an amendment which would reduce the exclusion for U.S. citizens abroad from the present \$20,000 level to \$4,000 in the case of those who are present in a foreign country for 17 out of 18 months or who are bona fide residents of a foreign country for not more than 3 years. In addition, the Senate amendment would have reduced from \$35,000 to \$6,000 the exclusion for those who are bona fide residents of a foreign country for more than 3 years. The conference agreement restores the first of these two categories to the present law level of \$20,000. The second category, which presently provides for a \$35,000 exclusion, is reduced to \$25,000 beginning in 1965.

Twenty-fourth. Your conferees agreed to a Senate amendment which permits persons who paid self-employment tax and who are later covered for the same period by a retroactive social security agreement entered into by a State, to obtain a refund of the self-employment tax.

Twenty-fifth. Your conferees agreed to a Senate amendment which provides 3 years—rather than 2—after a precedent interest terminates for the payment of an estate tax with respect to a reversionary or remainder interest if earlier payment results in undue hardship.

CONCLUSION

We can vote for this conference report if we voted for the House-passed bill. Those of you who did not vote for the bill when it was considered last September can now vote for the conference report itself, not because it appears to be a better tax bill in many respects than was worked out in the House, or due to the fact that additional time was available for improvements and technical changes, but because some things have changed since we passed this bill in the House last September. At that time we were talking about what the budget for 1965 ought to be, we were talking in terms of what it should be when filed by the President in January 1964. We now have that budget before us. It provides for a rate of spending less than the rate of spending suggested as being appropriate for 1965 when this bill was being considered by the House.

Certainly we are in a better position today to support this conference report than we would have been had that action not been taken by the present President of the United States. I commend

him for the leadership he has shown in the preparation of his budget and the efforts that he has made to hold down the spending. It gives me a great deal of confidence about the future, even if we pass this tax reduction. It is a pattern that we are now adopting and that I think we here will want to follow. It is a pattern that I feel certain the executive departments can and will follow in the future. I therefore urge you, Mr. Speaker, that we adopt the conference report as brought to the House by the managers on the part of the House.

BRIEF SUMMARY OF H.R. 8363 AS AGREED TO IN CONFERENCE

At this point I would like to insert in the RECORD a brief summary of the bill as agreed to by the conferees:

Section 1, declaration by Congress: It is the sense of Congress that the tax reduction provided by this bill, through stimulation of the economy, after a brief transitional period will raise—rather than lower—revenues and that these revenues should first be used to eliminate deficits and then the public debt. Congress also recognizes the importance of taking all reasonable means to restrain Government spending and urges the President to do the same.

Section 2: The title of the bill is the Revenue Act of 1964.

Section 111, individual rates: This reduces the rates of tax for individuals from a range of 20 to 91 percent to a range of 16 to 77 percent for 1964 and to a range of 14 to 70 percent for 1965 and subsequent years. This also splits the first bracket into four segments of \$500 each, taxed at 14, 15, 16, and 17 percent, respectively.

Section 112, minimum standard deduction: This provides that, if higher than the 10-percent standard deduction, the "minimum standard deduction" is to be \$200 plus \$100 for each exemption (amounting to \$300 for a taxpayer). Thus, the exemption and minimum standard deduction for a single person will be \$900; for a married couple, \$1,600; and, for a married couple with two children, \$3,000.

Section 113, related amendments: This conforms to the tax rate applicable to the retirement income credit with the new rate schedules. Thus, it makes the rate applicable to the retirement income 17 percent for 1964 and 15 percent for subsequent years—instead of 20 percent. This also conforms the floor on the tax on nonresident aliens with the new rate schedule by raising from \$15,400 to \$19,000 in 1964 and \$21,200 in 1965 and subsequent years the income level to which the regular, rather than the flat 30-percent rate, may be applicable.

Section 114: This is a cross-reference.

Section 121, corporate rates: This reduces the overall corporate tax rate from the present 52 percent to 50 percent in 1964 and 48 percent in subsequent years. It also reduces the rate applicable to the first \$25,000 of corporate income, from the present 30 percent, to 22 percent for 1964 and subsequent years.

Section 122, acceleration of corporate tax: This section provides for a speedup in the payment of corporate taxes. It applies only to tax liability in excess of \$100,000. At present, 50 percent of tax liability over \$100,000 is payable in two installments in September and December—for a calendar year corporation—in the current year of liability. This accelerates the other two payments now made after the end of the year with respect to this liability over \$100,000 so that by 1970 these two 25-percent payments also will be made in the current year of liability in April and June—for a calendar year corporation. This speedup is provided on a gradual basis. Thus, 1 percent of this liability in April and June will be reported for 1964, 4 percent for 1965, 9 percent for 1966, 14 percent for 1967, 19 percent for 1968, 22 percent for 1969, and the full 25 percent for 1970.

Section 123, related amendments: This conforms other provisions in the Internal Revenue Code to the changes made with respect to corporate rates in section 121. The conforming amendments relate to the tax on mutual insurance companies—other than life—and receipts of minimum distributions for domestic corporations from their foreign subsidiaries.

Section 131, effective date: This provides that the corporate and individual rate changes are to be effective generally for taxable years beginning after December 31, 1963.

Section 132, fiscal year taxpayers: This provides that the individual and corporate rate changes for fiscal year taxpayers are to apply to that portion of their years ending after December 31, 1963.

Section 201, dividend credit and exclusion: The 4-percent dividends received credit available to individuals is reduced to 2 percent for 1964 and repealed for subsequent years. The \$50 dividend exclusion is increased to \$100 for 1964 and subsequent years. In practical effect, this increase is from \$100 to \$200 for married couples.

Section 202, retirement income credit: This provides that a couple, both over 65, making a joint return may, at their election, have a total retirement income credit of \$2,286 applicable to the retirement income of either or both if either spouse meets the 10-year earned

income requirement. The \$2,286 amount is required to be reduced by amounts received as tax-exempt pensions and annuities and by amounts representing adjustments for earned income. These are the reductions applying to the \$1,524 ceiling under present law.

Section 203, investment credit: In the case of the investment credit, the provision requiring a downward adjustment in the basis of property eligible for depreciation, to the extent of the 7-percent investment credit, is repealed. Also Federal regulatory commissions are prohibited from requiring the "flowthrough" of any of the benefits of the investment credit to the customers of the regulated industries in the case of property eligible for the full 7-percent credit—mainly the transportation industries such as railroads, airlines, and pipelines. In the [P. 3432]

case of public utilities eligible only for the 3-percent credit—principally telephone and electric companies—the regulatory commissions are not to require the "flowthrough" of the benefits of the investment credit in any period of time shorter than the usual life of the asset involved. Other changes make the investment credit available in the case of elevators and escalators and increase the base on which the credit of the lessee is to be computed where dealers lease property eligible for the credit.

Section 204, group-term insurance. The employee exclusion for premiums on group-term insurance furnished through the employer is limited to premiums paid on the first \$50,000 of coverage, and information reporting requirements are provided for those employees receiving more than \$50,000 of such insurance.

Section 205, sick pay exclusion: Sick pay received after the taxpayer has been absent from work more than 30 days is to be excluded from income up to \$100 a week. Within the 30-day period if the sick pay is 75 percent or less of the regular weekly rate, then up to \$75 a week may be excluded after an absence of 7 calendar days on account of injuries or illness, and from the first day without any waiting period, if the taxpayer is hospitalized at least 1 day in the first 7.

Section 206, sale of residence: An exclusion from taxable income is provided for any capital gain attributable to the first \$20,000 of the sale price of a personal residence in the case of an individual age 65 or over who owned the house for 8 years and occupied it for 5 of them.

Section 207, State and local taxes: A deduction is denied in computing income subject to Federal tax for State and local taxes other than property taxes, income taxes, general sales taxes, and gasoline taxes. The principal taxes for which

this denies a deduction are alcoholic beverage taxes, cigarette taxes, auto registration fees and licenses, and selective excise taxes.

Section 208, casualty losses: The deduction for personal casualty and theft losses is limited to the amount in excess of \$100 per loss, in a manner somewhat similar to the treatment of "\$100 deductible" insurance.

Section 209, charitable contributions: The following changes are made in the charitable contribution deduction:

First. The additional 10-percent maximum deduction—above the 20 percent generally available—is made available generally for contributions to publicly supported organizations other than private foundations—presently it is available chiefly for churches, schools, and hospitals. / 15 - 1

Second. The unlimited charitable contribution deduction is restricted to contributions to publicly supported organizations and to a privately supported organization if (i) the organization is an operating charity or (ii) expends 50 percent of the contribution within 3 years after the year it was received—as well as all its net income during the period; in addition for a contribution to a privately supported organization to be deductible under this provision, the person making the contribution must not engage in certain prohibited transactions with such organization.

Third. A 5-year carryover of charitable contributions—in excess of the amount currently deductible—is provided for individuals with respect to contributions to publicly supported organizations.

Fourth. The 2-year carryover of charitable contribution deductions for corporations is extended to 5 years—this is available for contributions made in 1962 and 1963 as well as subsequent years.

Fifth. Charitable contribution deductions for gifts of future interest made after June 30, 1964, in tangible personal property are denied until the gifts are completed.

Section 210, expropriation losses: Businesses which have sustained substantial "foreign expropriation losses" after 1958 are permitted to carry such losses forward and apply them against income for a 10-year period. This is in place of the regular 3-year carryback and 5-year carryforward for net operating losses.

Section 211, medicines and drugs: The 1-percent limitation, or floor, or medicines and drugs, which must be taken into account in determining deductible medical expenses, is made inapplicable where the taxpayer or his wife is over 65 and also with respect to expenses for

dependent parents over 65. This conforms the treatment with respect to the 1-percent limitation with that provided in the case of the 3-percent limitation for medical expenses generally.

Section 212, child care: The child care deduction is revised, first, to make it available in the case of a husband whose wife is incapacitated or institutionalized; second, to make it available with respect to care for children up to age 13—instead of 12; third, the maximum deduction allowable where there are two or more children is increased from \$600 to \$900; and, fourth, the present limitation on family income in the case of a working wife eligible for this deduction is raised from \$4,500 to \$6,000 and is also made applicable in respect of husbands with incapacitated wives. / 15 - 2

Section 213, moving expenses: A deduction is allowed for certain moving expenses—transportation of household goods, transportation of the persons involved, and meals and lodging of the persons while in transit—for employees who are not reimbursed for these expenses and also for new employees. An exclusion of these items is already available in the case of old employees who are reimbursed.

Section 214, 100-percent dividend deduction: Affiliated groups of corporations, where there is an 80-percent common ownership, which are eligible to file a consolidated return but do not do so, are permitted to take a 100-percent deduction for intercorporate dividends received from other members of the group if the group agrees to be treated as a single entity for certain purposes, such as the \$25,000 surtax exemption.

Section 215, bank loan insurance: An interest deduction is denied for amounts borrowed under a systematic plan to pay premiums on life insurance under policies purchased after August 6, 1963. The deduction is denied only if part or all of four of the first seven annual premiums are borrowed, the interest exceeds \$100 a year, the amounts borrowed were not unforeseen emergencies, or the amounts borrowed were not incurred in connection with a business.

Section 216, face-amount certificate companies: Financial institutions subject to State banking laws and issuing face-amount certificates are not to be denied a deduction for interest paid on these certificates under section 265(2) of the code—relating to interest indebtedness to carry tax-exempt obligations—to the extent the tax-exempt obligations do not constitute more than 15 percent of the average of the institutions' total assets.

Section 217, travel expenses: The rule adopted in 1962 which disallows a por-

tion of travel expenses for certain business trips combined with a vacation is modified to apply only in the case of travel outside the United States.

Section 218, reorganizations: Tax-free status is provided for a stock-for-stock reorganization where the corporation acquiring the stock exchanges the voting stock of its parent corporation for the stock of the corporation being acquired.

Section 219, multiemployer pension plans: Provision is made for the retroactive qualification of a pension plan under a multiemployer agreement with unions where the pension plan subsequently becomes qualified. /: - /

Section 220, pension coverage of employees abroad: U.S. corporations are to be permitted to extend coverage under their qualified pension, profit-sharing, et cetera, plans to U.S. citizens employed by foreign subsidiaries or by domestic subsidiaries operating outside the United States. Generally, this treatment will not be available in the case of foreign subsidiaries unless their employees are also covered for social security purposes.

Section 221, stock options: The present tax treatment of employee stock options is further restricted, the principal additional restrictions being, first, the stock when acquired must be held for 3 years or more; second, the options must not be for a period of more than 5 years; third, the option price must at least equal the market price of the stock when the option is granted; fourth, stockholders' approval of the options must be obtained; and, fifth, the extent to which new options may be exercised when old options are outstanding is restricted.

Separate tax treatment is provided for employee stock purchase plans which are available to all employees on a nondiscriminatory basis under rules which are substantially the same as under present law.

Section 222, revolving credit: Installment sales treatment, under which the income is reported as the installment is received, is extended to revolving credit sales but not with respect to accounts used as ordinary charge accounts.

[P. 3433]

Section 223, contested items: Where a taxpayer contests a tax or other liability, he is, nevertheless, to be permitted a deduction for the item in the year in which he makes the payment if this is earlier than the year in which the contest is settled.

Section 224, unstated interest: Where property is sold on an installment basis and either no, or very little, interest is charged on the installments, an appropriate amount of each installment is to

be treated as if it were an interest payment. This section also provides that the interest element in certain installment payments for educational services—including lodging—may be treated as deductible interest.

Section 225, personal holding companies: The percentage of passive income which may result in a company being classified as a personal holding company is reduced from 80 to 60 percent and amendments are made so that the personal holding company tax cannot be avoided by using rental income or oil or gas or mineral royalties—or working interests—to shelter substantial amounts of investment income, such as dividends and interest, from the personal holding company tax. Other restrictive amendments are also made. In addition, relief is provided for those companies which are not now personal holding companies, but would be under the new definitions. They are permitted favorable liquidation treatment in certain cases and also permitted a deduction in computing the personal holding company income for paying off existing debts. The section also provides that the basis of foreign personal holding company stock transmitted at death is to be increased by the Federal estate tax attributable to appreciation in such stock.

Section 226, aggregations of property: For the future, oil and gas leases and acquisitions may no longer be aggregated into "operating units" in determining what constitutes a property for purposes of computing the 50-percent net income limitation in the case of the percentage depletion deduction.

Section 227, iron ore royalties: Capital gains treatment is extended to iron ore royalties where the iron ore is mined in the United States and the persons acquiring the ore are not related to the persons owning the property.

Section 228, insurance companies: Three changes are made with respect to the income tax of insurance companies: First, the present rule providing for the deduction of certain distributions in 1958 through 1961 to shareholders pursuant to "mutualizations" of stock life insurance companies are extended to cover distributions in 1962; second, the requirement of present law that life insurance companies, and small mutual casualty insurance companies taxed on on investment income only, are to ratably accrue market discount on purchased bonds as ordinary income is removed with the result that this will be treated as capital gains; and, third, a change is made to assure the deductibility of qualified pension plan contributions of stock casualty insurance companies.

Section 229, mutual funds: Regulated investment companies—that is, mutual funds meeting certain requirements—are to be given 45 days after the close of their taxable year rather than 30 days to give notices to their shareholders as to the treatment by the shareholders of income received from the companies. In addition, a provision is added to the effect that distributions by a unit investment trust liquidating an individual's interests in the trust are not to be considered as giving rise to capital gains tax with respect to interests of other investors still in the trust.

Section 230, capital loss carryovers: Individuals will have an unlimited carryover of capital losses instead of a 5-year carryover of present law, but these losses must retain their character as short-term or long-term losses—rather than necessarily being treated as short-term losses in the year to which they are carried.

Section 231, gains on real estate: In the case of real estate sold in the future, any depreciation deduction, to the extent the deductions exceed the depreciation which would have been allowable under the straight line method—but only to the extent of any gain—are to be treated as giving rise to ordinary income. However, in the case of property held more than 20 months, the amount treated as ordinary income is to be reduced by 1 percent for each month of holding over 20, with the result that these amounts are taxed as capital gains, rather than as ordinary income, in the case of real property held more than 10 years.

Section 232, averaging: In place of the various specialized averaging provisions available under present law, what in effect amounts to averaging of income over a 5-year period is to be available for the income in the current year which exceeds the average of the income of the 4 prior years by more than one-third but only if the excess over this $1\frac{1}{3}$ amounts to more than \$3,000.

Section 233, subchapter S corporations: In the case of subchapter S corporations, the income of which is treated essentially like partnership income, it is provided that certain distributions of money after the close of a taxable year may be treated as made during the year, in order to prevent the double inclusion of this income in the tax base of a shareholder; and that a corporation member of an affiliated group may elect subchapter S treatment if the only other members of the group are inactive subsidiary corporations.

Section 234, consolidated returns: The 2-percent penalty tax which pre-

sently must be paid by corporations for the privilege of filing consolidated returns is repealed.

Section 235, multiple surtax exemptions: For corporations where there is common control to the extent of 80 percent or more, the corporations involved may, as under present law, file a consolidated return, or may claim one \$25,000 surtax exemption for the group, or alternatively may continue to each claim their own surtax exemption if a special tax of 6 percent is paid upon the first \$25,000 of the income of each of these corporations. In addition, under present law, corporations may not transfer directly all or part of their property—other than money—to another corporation if the other corporation was created for the purpose of acquiring the property and was not actively engaged in business at the time of the acquisition and still have each of these corporations eligible for its own surtax exemption. This treatment is extended to cover cases where the same result is obtained indirectly as well as directly and also where the result is obtained where five or fewer individuals who control a corporation transfer property directly or indirectly to a transferee corporation.

Section 236, tax liens: A purchaser—but not a mortgagee or pledgee—of a motor vehicle who acquires possession will not be subject to a Federal tax lien against the motor vehicle, notice of which has been publicly filed unless he has actual knowledge of the existence of the lien.

Section 237, earned income of U.S. citizens abroad: In the case of U.S. citizens who are present in a foreign country for 17 out of 18 consecutive months, or who are bona fide residents of a foreign country for not more than 3 years, the limitation on the exclusion from gross income is continued at \$20,000; but in the case of a U.S. citizen who is a bona fide resident of a foreign country for more than 3 years the exclusion is to be \$25,000 after 1964—instead of \$35,000.

Section 238, Cuban seizures of nonbusiness property: This provision permits a deduction for losses occasioned by the seizure, by Cuba, of personal residences—and other tangible nonbusiness property—by treating such losses as losses arising from a casualty.

Section 239, refund of self-employment tax: This permits persons who paid self-employment tax and who are later covered for the same period by a retroactive social security agreement entered into by a State to obtain a refund of the self-employment tax. Employees may already obtain a refund of the social security taxes paid by them in this situation.

Section 240, estate tax on reversionary or remainder interest: This provides 3 years (rather than 2) after a precedent interest terminates for the payment of estate tax with respect to reversionary or remainder interests if earlier payment results in undue hardship.

Section 301, optional tax tables: Optional tax tables are provided for those

with adjusted gross income of less than \$5,000 for the year 1964 and for 1965 and for subsequent years. These tables reflect the rate reductions for individuals referred to in section 111 above.

Section 302, withholding: Provision is made for a withholding rate of 14 percent in lieu of the 18 percent applicable under

present law. This is to apply to payments made after the seventh day following the date of enactment of this bill. Withholding rate tables to reflect this 14-percent withholding rate are also provided.

The following tables indicate the principal revenue effects of the bill as agreed to by the conferees:

[P. 3434]

TABLE 1.—Revenue bill of 1964, H.R. 8363—Estimated decrease (—) and increase (+) in tax liability of provisions of bill

AS APPROVED BY THE CONFERENCE (FEB. 10, 1964)

[In millions of dollars]

	Calendar year 1964 liability			Calendar year 1965 liability			Longrun liability		
	Individual	Corporation	Total	Individual	Corporation	Total	Individual	Corporation	Total
A. 1963-64 tax program:									
Rate changes (basic rates).....	-6,310	-1,320	-7,630	-9,470	-2,100	-11,660	-9,470	-2,100	-11,670
Structural changes raising:									
(a) Revenue changes:									
1. Group term insurance.....	+5	-----	+5	+5	-----	+5	+5	-----	+5
2. Bank loan insurance.....	+5	-----	+5	+5	-----	+5	+10	-----	+10
3. Sick pay exclusion.....	+65	-----	+65	+65	-----	+65	+65	-----	+65
4. Deduction of personal taxes.....	+300	-----	+300	+300	-----	+300	+300	-----	+300
5. Casualty loss deduction.....	+50	-----	+50	+50	-----	+50	+50	-----	+50
6. Aggregation of mineral properties.....	-----	+40	+40	-----	+40	+40	-----	+40	+40
7. Personal holding companies.....	+15	-----	+15	+15	-----	+15	+15	-----	+15
8. Repeal of dividend credit and increase in exclusion.....	+120	-----	+120	+300	-----	+300	+300	-----	+300
9. Multiple corporation penalty tax.....	-----	+35	+35	-----	+35	+35	-----	+35	+35
10. Exclusion of foreign earned income.....	-----	-----	-----	(?)	-----	(?)	(?)	-----	(?)
Total, revenue raising.....	+560	+75	+635	+740	+75	+815	+745	+75	+820

(b) Revenue reducing:

(b) Revenue reducing:	-10	-15	-60	-40	-320	-55	-100	(?)	-10	-455	-610	+25	-80	-1,400	-5	+90	-6,115	-20	(?)	-20	-6,135
11. Medical expense deduction.....	-10	-15	-60	-40	-320	-55	-100	(?)	-10	-455	-610	+25	-80	-1,400	-5	+90	-6,115	-20	(?)	-20	-6,135
12. Child care allowance.....	-10	-15	-60	-40	-320	-55	-100	(?)	-10	-455	-610	+25	-80	-1,400	-5	+90	-6,115	-20	(?)	-20	-6,135
13. Moving expenses.....	-10	-15	-60	-40	-320	-55	-100	(?)	-10	-455	-610	+25	-80	-1,400	-5	+90	-6,115	-20	(?)	-20	-6,135
14. Income averaging.....	-10	-15	-60	-40	-320	-55	-100	(?)	-10	-455	-610	+25	-80	-1,400	-5	+90	-6,115	-20	(?)	-20	-6,135
15. Minimum standard deduction.....	-10	-15	-60	-40	-320	-55	-100	(?)	-10	-455	-610	+25	-80	-1,400	-5	+90	-6,115	-20	(?)	-20	-6,135
16. Repeal of 2-percent tax on consolidated returns ¹	-10	-15	-60	-40	-320	-55	-100	(?)	-10	-455	-610	+25	-80	-1,400	-5	+90	-6,115	-20	(?)	-20	-6,135
17. Installment sales treatment.....	-10	-15	-60	-40	-320	-55	-100	(?)	-10	-455	-610	+25	-80	-1,400	-5	+90	-6,115	-20	(?)	-20	-6,135
18. Expropriation loss carryover.....	-10	-15	-60	-40	-320	-55	-100	(?)	-10	-455	-610	+25	-80	-1,400	-5	+90	-6,115	-20	(?)	-20	-6,135
19. Retirement income credit.....	-10	-15	-60	-40	-320	-55	-100	(?)	-10	-455	-610	+25	-80	-1,400	-5	+90	-6,115	-20	(?)	-20	-6,135
Total, revenue reducing.....	-455	-610	+25	-80	-1,400	-5	+90	-6,115	-20	(?)	-20	-6,135									
Total, structural changes.....	-455	-610	+25	-80	-1,400	-5	+90	-6,115	-20	(?)	-20	-6,135									
Total, rate and structural changes, 1963-64, tax program.....	-455	-610	+25	-80	-1,400	-5	+90	-6,115	-20	(?)	-20	-6,135									
Capital gains revisions (including induced effects):																					
1. Unlocking of capital gains from general rate reduction.....	-10	-15	-60	-40	-320	-55	-100	(?)	-10	-455	-610	+25	-80	-1,400	-5	+90	-6,115	-20	(?)	-20	-6,135
2. Sale or exchange of real estate.....	-10	-15	-60	-40	-320	-55	-100	(?)	-10	-455	-610	+25	-80	-1,400	-5	+90	-6,115	-20	(?)	-20	-6,135
3. Carryover of losses.....	-10	-15	-60	-40	-320	-55	-100	(?)	-10	-455	-610	+25	-80	-1,400	-5	+90	-6,115	-20	(?)	-20	-6,135
4. Sales of residences by taxpayers aged 65 or over.....	-10	-15	-60	-40	-320	-55	-100	(?)	-10	-455	-610	+25	-80	-1,400	-5	+90	-6,115	-20	(?)	-20	-6,135
5. Capital gains treatment of iron ore royalties.....	-10	-15	-60	-40	-320	-55	-100	(?)	-10	-455	-610	+25	-80	-1,400	-5	+90	-6,115	-20	(?)	-20	-6,135
Total, capital gains revisions.....	-455	-610	+25	-80	-1,400	-5	+90	-6,115	-20	(?)	-20	-6,135									
Total, 1963-64 tax program.....	-455	-610	+25	-80	-1,400	-5	+90	-6,115	-20	(?)	-20	-6,135									
B. Revision of 1962 legislation:																					
1. Repeal of requirement to reduce basis by investment credit.....	-10	-15	-60	-40	-320	-55	-100	(?)	-10	-455	-610	+25	-80	-1,400	-5	+90	-6,115	-20	(?)	-20	-6,135
2. Allow investment credit for elevators and escalators.....	-10	-15	-60	-40	-320	-55	-100	(?)	-10	-455	-610	+25	-80	-1,400	-5	+90	-6,115	-20	(?)	-20	-6,135
3. Elimination of allocation of travel expenses.....	-10	-15	-60	-40	-320	-55	-100	(?)	-10	-455	-610	+25	-80	-1,400	-5	+90	-6,115	-20	(?)	-20	-6,135
Total, revision of 1962 legislation.....	-455	-610	+25	-80	-1,400	-5	+90	-6,115	-20	(?)	-20	-6,135									
Total, revenue bill of 1964.....	-455	-610	+25	-80	-1,400	-5	+90	-6,115	-20	(?)	-20	-6,135									
O.																					

¹ At levels of income estimated for the calendar year 1963 without feedback.

Less than \$2,500,000.

* Including 100-percent intercorporate dividend deduction for certain affiliated groups.

* Includes relatively small amount attributable to individuals.

• Treasury Department estimate; estimate of staff of Joint Committee on Internal

Revenue Taxation is \$245,000,000 for 1964, \$305,000,000 for 1965, and \$435,000,000 for the long run (1968).

^a Treasury Department estimate; estimate of Joint Committee on Internal Revenue Taxation is higher, because of the investment credit provisions by long run (1968).

revenue taxation is higher, because of the investment credit basis provisions, by \$85,000,000 for 1964, by \$110,000,000 for 1965, and by \$240,000,000 for the long run (1963).

\$2,000,000 in 1961, by \$110,000,000 in 1963, and by \$240,000,000 in 1965).

TABLE 2.—Revenue bill of 1964, H.R. 8363—Estimated decrease (—) and increase (+) in fiscal year receipts¹ of provisions of bill
AS APPROVED BY THE CONFERENCE (FEB. 19, 1964)

[In millions of dollars]

	Fiscal year 1964 receipts			Fiscal year 1965 receipts		
	Individual	Corporation	Total	Individual	Corporation	Total
A. 1963-64 tax program:						
Rate changes:						
Basic rates:						
Acceleration of corporation tax payments	-1,900	+260	-1,900 +260	-8,060	-1,320 +900	-9,380 +900
Total, rate changes	-1,900	+260	-1,640	-8,060	-420	-8,480
Structural changes:						
(a) Revenue raising:						
1. Group term insurance				+5		+5
2. Bank loan insurance				+5		+5
3. Sick pay exclusion				+65		+65
4. Deduction of personal taxes				+300		+300
5. Casualty loss deduction				+50		+50
6. Aggregation of mineral properties					+40	+40
7. Personal holding companies				+15		+15
8. Repeal of dividend credit and increase in exclusion				+120		+120
9. Multiple corporation penalty tax					+35	+35
10. Exclusion of foreign earned income						
Total, revenue raising				+500	+75	+635
(b) Revenue reducing:						
11. Medical expense deduction				-10		-10
12. Child care allowance				-15		-15
13. Moving expenses				-60		-60
14. Income averaging				-40		-40
15. Minimum standard deduction				-320		-320
16. Repeal of 2-percent tax on consolidated returns ²					-55	-55
17. Installment sales treatment					3 -100	-100
18. Expropriation loss carryover					(4)	(4)
19. Retirement income credit				-10		-10
Total, revenue reducing				-455	-155	-610
Total, structural changes				+105	-80	+25
Total, rate and structural changes, 1963-64 tax program	-1,900	+260	-1,640	-7,955	-500	-8,455

TABLE 3.—Revenue bill of 1964, H.R. 8363—Estimated decrease (—) and increase (+) in tax liability¹ of provisions of bill as passed by the House of Representatives, as passed by the Senate, and as approved by the conference, calendar years 1964 and 1965 and long run

[In millions of dollars]

	Calendar year 1964 liability			Calendar year 1965 liability			Longrun liability		
	As passed by the House of Representatives	As passed by the Senate	As approved by the conference	As passed by the House of Representatives	As passed by the Senate	As approved by the conference	As passed by the House of Representatives	As passed by the Senate	As approved by the conference
A. 1963-64 tax program:									
Rate changes (basic rates):									
Individual.....	-6,310	-6,310	-6,310	-9,470	-9,470	-9,470	-9,470	-9,470	-9,470
Corporation.....	-1,320	-1,320	-1,320	-2,100	-2,100	-2,100	-2,100	-2,100	-2,100
Total, rate changes.....	-7,630	-7,630	-7,630	-11,660	-11,660	-11,660	-11,660	-11,660	-11,660
Structural changes:									
(a) Revenue raising:									
1. Group term insurance.....	+5	+5	+5	+5	+5	+5	+5	+5	+5
2. Bank loan insurance.....	+5	+5	+5	+5	+5	+5	+5	+5	+5
3. Sick pay exclusion.....	+110	+55	+65	+110	+55	+65	+110	+55	+65
4. Deduction of personal taxes.....	+520	+190	+300	+520	+190	+300	+520	+190	+300
5. Casualty loss deduction.....	+50	+50	+50	+50	+50	+50	+50	+50	+50
6. Aggregation of mineral properties.....	+40	+40	+40	+40	+40	+40	+40	+40	+40
7. Personal holding companies.....	+15	+15	+15	+15	+15	+15	+15	+15	+15
8. Repeal of dividend credit and increase in exclusion.....	+120	+120	+120	+300	+300	+300	+300	+300	+300
9. Multiple corporation penalty tax.....	+35	+35	+35	+35	+35	+35	+35	+35	+35
10. Exclusion of foreign earned income.....	+10	+10	+10	-----	-----	-----	-----	-----	-----
Total, revenue raising.....	+900	+520	+635	+1,080	+700	+815	+1,085	+765	+820
(b) Revenue reducing:									
11. Medical expense deduction.....	-10	-10	-10	-10	-10	-10	-10	-10	-10
12. Child care allowance.....	-5	-20	-15	-5	-20	-15	-5	-20	-15
13. Moving expenses.....	-60	-105	-60	-60	-105	-60	-60	-105	-60
14. Income averaging.....	-40	-40	-40	-40	-40	-40	-40	-40	-40
15. Minimum standard deduction.....	-320	-320	-320	-320	-320	-320	-320	-320	-320
16. Repeal of 2-percent tax on consolidated returns.....	-50	+55	+55	-50	+55	+55	-50	+55	+55
17. Political contributions.....	-----	-25	-25	-----	-10	-10	-----	-15	-15
18. Installment sales treatment.....	-----	-140	-100	-----	-10	-10	-----	-10	-10
19. Expropriation loss carryover.....	-----	(2)	(2)	-----	-5	-5	-----	-5	-5
20. Retirement income credit.....	-----	-10	-10	-----	-10	-10	-----	-10	-10
21. Extension of head-of-household status.....	-----	-20	-20	-----	-20	-20	-----	-20	-20
22. Extra exemption and transportation expense for disabled.....	-----	-185	-185	-----	-185	-185	-----	-185	-185

23. Double investment credit for facilities to control pollution.....

Total, revenue reducing.....	-485	-25	-610	-485	-30	-520	-485	-50	-620
Total, structural changes.....	+415	-435	+25	+595	-115	+295	+600	-140	+300
Total, rate and structural changes 1963-64 tax program.....	-7,215	-8,065	-7,605	-11,065	-11,775	-11,365	-11,060	-11,800	-11,350
Capital gains revision (including induced effects):									
1. Unlocking of capital gains from general rate reduction.....	+130	+130	+130	+130	-130	+130	+50	+50	+50
2. 50-40 percent inclusion, additional holding period, and 21-percent maximum rate.....	+130			+10			-230		
3. Carryover of losses.....	-30		-30	-30		-30	-30		-30
4. Sale or exchange of real estate.....	(2)	(2)	(2)	+5	+5	+5	+15	+15	+15
5. Sales of residences by taxpayers aged 65 or over.....	-10	-10	-10	-10	-10	-10	-10	-10	-10
6. Capital gains treatment of iron ore royalties.....	-5	-5	-5	-5	-5	-5	-5	-5	-5
Total, capital gains revisions.....	+215	+115	+85	+80	+120	+90	-210	+50	+20
Total, 1963-64 tax program.....	-7,000	-7,050	-7,520	-10,985	-11,655	-11,275	-11,270	-11,750	-11,340
B. Revision of 1962 legislation:									
1. Repeal of requirement to reduce basis by investment credit.....	-160	-160	-160	-195	-195	-195	-195	-195	-195
2. Allow investment credit for elevators and escalators.....	-10	-10	-10	-10	-10	-10	-10	-10	-10
3. Elimination of allocation of travel expenses.....		-5	(2)		-5	(2)		-5	(2)
Total, revision of 1962 legislation.....	-170	-175	-170	-205	-210	-205	-265	-210	-205
C. Total, revenue bill of 1964: *									
Individual.....	-5,720	-6,505	-6,135	-8,845	-9,470	-9,120	-9,140	-9,555	-9,195
Corporation.....	-1,450	-1,620	-1,555	-2,345	-2,395	-2,360	-2,335	-2,405	-2,350
Total.....	-7,170	-8,125	-7,690	-11,190	-11,865	-11,480	-11,475	-11,960	-11,545

1 At levels of income estimated for calendar year 1963 without feedback.

2 Less than \$2,500,000.

3 Includes 100-percent intercorporate dividend deduction for certain affiliated groups.

4 Revised: estimates in Ways and Means Committee report combining this item with "unlocking" were \$340,000,000 in 1964 and \$210,000,000 in 1965.

* Treasury Department estimates revised from estimates of \$145,000,000 for 1964 and \$185,000,000 for 1965 in Ways and Means Committee report; estimates of staff of Joint Committee on Internal Revenue Taxation are \$245,000,000 for 1964, \$305,000,000 for 1965, and \$435,000,000 for the long run (1968).

* Treasury Department estimates; estimates of staff of Joint Committee on Internal Revenue Taxation are higher, because of the investment credit basis provision, by \$86,000,000 for 1964, by \$110,000,000 for 1965, and by \$240,000,000 for the long run (1968).

TABLE 4.—Revenue bill of 1964, H.R. 8363—Estimated decrease (—) and increase (+) in fiscal year receipts¹ of provisions of bill as passed by the House of Representatives, as passed by the Senate, and as approved by the conference, fiscal years 1964 and 1965

[In millions of dollars]

	Fiscal year 1964 receipts			Fiscal year 1965 receipts		
	As passed by the House of Representatives	As passed by the Senate	As approved by the conference	As passed by the House of Representatives	As passed by the Senate	As approved by the conference
A. 1963-64 tax program:						
Rate changes:						
Individual (basic rates).....	-2,430	-1,900	-1,900	-7,530	-8,060	-8,060
Corporation (basic rates).....				-1,320	-1,320	-1,320
Corporation (acceleration of tax payments).....	+260	+260	+260	+900	+900	+900
Total, corporation.....	+260	+260	+260	-420	-420	-420
Total, rate changes.....	-2,170	-1,640	-1,640	-7,950	-8,480	-8,480
Structural changes:						
(a) Revenue raising:						
1. Group term insurance.....				+5	(²) +5	+5
2. Bank loan insurance.....				+5	+5	+5
3. Sick pay exclusion.....				+110	+56	+66
4. Deduction of personal taxes.....				+520	+190	+300
5. Casualty loss deduction.....				+50	+50	+50
6. Aggregation of mineral properties.....				+40	+40	+40
7. Personal holding companies.....				+15	+15	+15
8. Repeal of dividend credit and increase in exclusion.....				+120	+120	+120
9. Multiple corporation penalty tax.....				+35	+35	+35
10. Exclusion of foreign earned income.....					+10	(²)
Total, revenue raising.....				+900	+520	+635
(b) Revenue reducing:						
11. Medical expense deduction.....				-10	-10	-10
12. Child care allowance.....				-5	-20	-15
13. Moving expenses.....				-60	-105	-60
14. Income averaging.....				-40	-40	-40

15. Minimum standard deduction.....					-320	-320	-320	-320
16. Repeal of 2-percent tax on consolidated returns.....					4-55	4-55	4-55	4-55
17. Political contributions.....					-25	-25	-25	-25
18. Installment sales treatment.....					-140	-140	-140	-140
19. Expropriation loss carryover.....					(3)	(3)	(3)	(3)
20. Retirement income credit.....					-10	-10	-10	-10
21. Extension of head-of-household status.....					-20	-20	-20	-20
22. Extra exemption and transportation expense for disabled.....					-185	-185	-185	-185
23. Double investment credit for facilities to control pollution.....					-25	-25	-25	-25
Total, revenue reducing.....					-485	-485	-955	-610
Total, structural changes.....					+415	+415	-435	+25
Total, rate and structural changes 1963-64 tax program.....	-2,170	-1,640	-1,640	-1,640	-7,535	-7,535	-8,915	-8,455
Capital gains revision (including induced effects):								
1. Unlocking of capital gains from general rate reduction.....					+130	+130	+130	+130
2. 50-40-percent inclusion, additional holding period, and 21-percent maximum rate.....					+130	+130		
3. Carryover of losses.....					-30	-30		
4. Sale or exchange of real estate.....					(3)	(3)	(3)	(3)
5. Sales of residences by taxpayers aged 65 or over.....					-10	-10	-10	-10
6. Capital gains treatment of iron ore royalties.....					-5	-5	-5	-5
Total, capital gains revisions.....					+215	+115	+115	+85
Total, 1963-64 tax program.....	-2,170	-1,640	-1,640	-1,640	-7,320	-8,800	-8,800	-8,370
B. Revision of 1962 legislation:								
1. Repeal of requirement to reduce basis by investment credit.....	-15				6-160	6-160	6-160	6-160
2. Allow investment credit for elevators and escalators.....	-5	-5	-5	-5	-10	-10	-10	-10
3. Elimination of allocation of travel expenses.....		(3)	(3)	(3)	-5	-5	-5	(3)
Total, revision of 1962 legislation.....	-20	-5	-5	-5	7-170	7-175	7-175	7-170
C. Total, revenue bill of 1964:								
Individual.....	-2,430	-1,900	-1,900	-1,900	-6,940	-8,255	-8,255	-7,885
Corporation.....	+240	+255	+255	+255	-550	-720	-720	-655
Total.....	-2,190	-1,645	-1,645	-1,645	7-7,490	7-8,975	7-8,975	7-8,540

¹ At levels of income estimated for calendar year 1963 without feedback.
² Assumes effective date for withholding change of Mar. 8, 1964.
³ Less than \$2,500,000.
⁴ Includes 100-percent intercorporate dividend deduction for certain affiliated groups.
⁵ Revised; estimate in Ways and Means Committee report, combining this item with "unlocking" was \$340,000,000.
⁶ Treasury Department estimate revised from estimate of \$145,000,000 in Ways and Means Committee report; estimate of staff of Joint Committee on Internal Revenue Taxation is \$245,000,000.
⁷ Treasury Department estimate; estimate of staff of Joint Committee on Internal Revenue Taxation is higher by \$85,000,000 because of the investment credit basis provision.

TABLE 5.—Action by conference on H.R. 8363 resulting in significant change in tax liability over House bill and Senate bill, calendar years 1964-65 and long run

[In millions of dollars]

Action by conference	Change in tax liability				Action by conference	Change in tax liability				
	From House bill		From Senate bill			From House bill		From Senate bill		
	1964	1965	Long run	1964		1965	Long run	1964	1965	Long run
1. Elimination of deduction for political contributions.....										
2. Revision of deduction for child care expenses.....	-10	-10	-10	+25	+5	+15				
3. Limitation of allocation of expenses of travel to foreign travel.....	(2)	(2)	(2)	+5	+5	+5				
4. 100 percent intercorporate dividend deduction for certain affiliated groups.....	-5	-5	-5	(2)	(2)	(2)				
5. Retention of deduction of State and local tax on motor fuels.....	-220	-220	-220	+110	+110	+110				
6. Elimination of allowance to reimbursed employee, as part of sales price, of selling costs and loss on forced sale of house.....				+45	+45	+45				
7. Elimination of 40 percent inclusion, additional holding period, and 21 percent maximum rate with respect to capital gains.....	-130	+10	+230							
8. Allowance of indefinite carryover of capital gains.....				-30	-30	-30				
9. Modification of allowance of installment sales treatment for revolving credit plans.....	-100	-5	-5	+40	+5	+5				
10. Permitting election of 10-year carryforward without carryback for expatriation losses.....	(2)	-5	-5							
11. Establishment of \$50,000 as the maximum group-term life insurance not subject to tax.....	(2)	(2)	(2)							
12. Liberalization of retirement income credit on certain joint returns.....	-10	-10	-10							
13. Modification of restriction on sick pay exclusion.....	-45	-45	-45							
14. Modification of exclusion of foreign earned income.....		(2)	(2)							
15. Elimination of extension of head-of-household status.....										
16. Elimination of extra exemption and transportation expenses for disabled.....										
17. Elimination of double investment credit for facilities to control pollution.....										
Total.....	-520	-290	-70	+425	+30	+105				

¹ \$25,000,000 for presidential election year; 50 percent of that amount for congressional election year and 25 percent for off year; average about \$15,000,000 per year.

² Plus—less than \$2,500,000.

³ These differences are based on revised estimates of effect of House action.

⁴ Negligible by 1970.

TABLE 6.—Action by conference on H.R. 8363 resulting in significant change in tax receipts over House bill and Senate bill, fiscal years 1964 and 1965

[In millions of dollars]

Action by conference	Change in tax receipts				Action by conference	Change in tax receipts			
	From House bill		From Senate bill			From House bill		From Senate bill	
	Fiscal year 1964	Fiscal year 1965	Fiscal year 1964	Fiscal year 1965		Fiscal year 1964	Fiscal year 1965	Fiscal year 1964	Fiscal year 1965
1. Elimination of deduction for political contributions.				+25	11. Establishment of \$50,000 as the maximum group-term insurance not subject to tax.				(2)
2. Revision of deduction for child care expenses.				+5	12. Liberalization of retirement income credit on joint certain returns.				
3. Limitation of allocation of expenses of travel to foreign travel.	(1)	(1)	(2)	(2)	13. Modification of restriction on sick-pay exclusion.		-10		
4. 100 percent intercorporate dividend deduction for certain affiliated groups.					14. Modification of exclusion of foreign-earned income.		-45		-10
5. Retention of deduction of State and local tax on motor fuels.		-5			15. Elimination of extension of head-of-household status.				-10
6. Elimination of allowance to reimbursed employee, as part of sales price, of selling costs and loss on forced sale of house.		-220		+110	16. Elimination of extra exemption and transportation expenses for disabled.				+20
7. Elimination of 40 percent inclusion, additional holding period, and 21 percent maximum rate with respect to capital gains.				+45	17. Elimination of double investment credit for facilities to control pollution.				+185
8. Allowance of indefinite carryover of capital losses.					18. Postponed termination of 18-percent withholding rate and advanced initiation of 14-percent rate.	+530			+25
9. Modification of allowance of installment sales treatment for revolving credit plans.				-30	19. Postponement of repeal of basis adjustment under the investment credit.	+15	-530		
10. Permitting election of 10-year carryforward without carryback for expropriation losses.		-100		+40	Total	+545	-1,050	(2)	+425

¹ Minus—Less than \$2,500,000.

² This difference is based on revised estimate of effect of House action.

³ Plus—Less than \$2,600,000.

⁴ Assumes effective date for withholding change of Mar. 8, 1964.

TABLE 7.—Revenue bill of 1964, H.R. 8363—Distribution by adjusted gross income class of the full year effect of rate and structural changes affecting individuals ¹

AS APPROVED BY THE CONFERENCE (FEB. 19, 1964)

Adjusted gross income class (thousands of dollars)	Structural changes											Total rate and structural changes			
	Rate change	Group term and other insurance	Sick-pay exclusion	Limitation of deductions	Casualty loss deduction	Personal holding companies	Dividend credit and exclusion	Medical care deduction (aged)	Child care allowance	Moving expenses	Income averaging		Minimum standard deduction	Retirement income credit	Total structural changes
In million of dollars															
0 to 3-----	-400	(2)	(2)	5	(2)	(2)	(2)	10	(2)	(2)	-15	-170	(2)	-165	-565
3 to 5-----	-1,020	(2)	(2)	30	(2)	(2)	(2)	30	(2)	(2)	-25	-100	(2)	-65	-1,085
5 to 10-----	-3,905	(2)	(2)	130	(2)	(2)	(2)	50	(2)	(2)	-15	-50	(2)	+130	-3,775
10 to 20-----	-2,285	(2)	(2)	75	(2)	(2)	(2)	85	(2)	(2)	-5	-	(2)	+125	-2,160
20 to 50-----	-1,150	5	(2)	35	(2)	(2)	(2)	125	(2)	(2)	-20	-	(2)	+105	-1,045
50 and over----	-710	10	(2)	25	(2)	15	(2)	-5	(2)	(2)	-10	-	(2)	+160	-550
Total----	-9,470	15	65	300	50	15	300	-10	-15	-60	-40	-320	-10	+290	-9,180
Change as a percent of present tax															
0 to 3-----	-27.6	(2)	(2)	0.3	(2)	(2)	(2)	0.2	(2)	(2)	-0.4	-11.7	(2)	-11.4	-39.0
3 to 5-----	-25.3	(2)	(2)	.7	(2)	(2)	(2)	.2	(2)	(2)	-1.1	-2.5	(2)	-1.6	-26.9
5 to 10-----	-21.3	(2)	(2)	.6	(2)	(2)	(2)	.4	(2)	(2)	-1.1	-.3	(2)	+.7	-20.6
10 to 20-----	-18.0	(2)	(2)	.5	(2)	(2)	(2)	1.3	(2)	(2)	-0.1	-	(2)	+1.0	-17.0
20 to 50-----	-17.0	0.1	(2)	.6	(2)	0.4	(2)	-0.1	(2)	(2)	-3	-	(2)	+1.6	-15.5
50 and over----	-17.0	.2	(2)	.6	(2)	.1	(2)	-1.1	(2)	(2)	-2	-	(2)	+3.8	-13.2
Total----	-20.0	(2)	.1	.6	.1	(2)	.6	(2)	(2)	-1	-1	-7	(2)	+.6	-19.4

¹ Excludes effect of capital gains provisions and repeal of the requirement to reduce basis by amount of investment credit.

² Less than \$2,500,000 or 0.05 percent.

TABLE 8.—Individual income tax liability under present law and under H.R. 8363

SINGLE PERSON WITH STANDARD DEDUCTION, CALENDAR YEAR 1965

Adjusted gross income ¹	Under present law	Under H.R. 8363		
		Amount of tax	Tax reduction	
			Amount	Percentage
\$1,000-----	\$62	\$16	\$46	74
\$1,500-----	152	87	65	43
\$2,000-----	242	163	79	33
\$3,000-----	427	333	94	22
\$4,000-----	625	504	121	19
\$5,000-----	813	671	147	18
\$6,000-----	1,048	866	182	17
\$7,500-----	1,405	1,168	237	17
\$10,000-----	2,096	1,742	354	17
\$12,500-----	2,982	2,478	504	17
\$15,000-----	4,002	3,334	668	17
\$17,500-----	5,153	4,291	862	17
\$20,000-----	6,412	5,350	1,062	17

¹ Wages and salaries.

TABLE 10.—Individual income tax liability under present law and under H.R. 8363

MARRIED COUPLE WITH 2 DEPENDENTS, WITH STANDARD DEDUCTION, CALENDAR YEAR 1965

Adjusted gross income ¹	Under present law	Under H.R. 8363		
		Amount of tax	Tax reduction	
			Amount	Percentage
\$1,000-----	0	0		
\$1,500-----	0	0		
\$2,000-----	0	0		
\$3,000-----	\$65	\$4	\$61	94
\$4,000-----	245	144	101	41
\$5,000-----	420	290	130	31
\$6,000-----	600	450	150	25
\$7,500-----	877	687	190	22
\$10,000-----	1,372	1,114	258	19
\$12,500-----	1,966	1,622	344	17
\$15,000-----	2,616	2,172	444	17
\$17,500-----	3,350	2,785	565	17
\$20,000-----	4,124	3,428	696	17

¹ Wages and salaries.

TABLE 9.—Individual income tax liability under present law and under H.R. 8363

MARRIED COUPLE WITH NO DEPENDENTS, WITH STANDARD DEDUCTION, CALENDAR YEAR 1965

Adjusted gross income ¹	Under present law	Under H.R. 8363		
		Amount of tax	Tax reduction	
			Amount	Percentage
\$1,000-----	0	0	0	0
\$1,500-----	\$32	0	\$32	100
\$2,000-----	122	\$58	64	52
\$3,000-----	305	204	101	33
\$4,000-----	485	358	127	26
\$5,000-----	660	501	159	24
\$6,000-----	844	658	186	22
\$7,500-----	1,141	915	226	20
\$10,000-----	1,636	1,342	294	18
\$12,500-----	2,278	1,886	392	17
\$15,000-----	2,960	2,460	500	17
\$17,500-----	3,710	3,085	625	17
\$20,000-----	4,532	3,764	768	17

¹ Wages and salaries.

TABLE 11.—Individual income tax liability under present law and under H.R. 8363

MARRIED COUPLE WITH NO DEPENDENTS, WITH TYPICAL AVERAGE ITEMIZED DEDUCTIONS, CALENDAR YEAR 1965

Adjusted gross income ¹	Under present law	Under H.R. 8363		
		Amount of tax	Tax reduction	
			Amount	Percentage
\$5,000-----	\$540	\$407	\$133	25
\$6,000-----	696	538	158	23
\$7,500-----	976	785	191	20
\$10,000-----	1,460	1,204	256	18
\$12,500-----	1,972	1,644	328	17
\$15,000-----	2,525	2,111	414	16
\$17,500-----	3,133	2,622	511	16
\$20,000-----	3,770	3,158	612	16
\$25,000-----	5,229	4,368	861	16
\$30,000-----	6,886	5,773	1,113	16
\$40,000-----	10,775	9,031	1,744	16
\$50,000-----	15,248	12,843	2,405	16
\$75,000-----	25,696	21,825	3,871	15
\$100,000-----	37,548	31,897	5,651	15

¹ Wages and salaries.

TABLE 12.—Individual income tax liability under present law and under H.R. 8363

MARRIED COUPLE WITH 2 DEPENDENTS, WITH
TYPICAL AVERAGE ITEMIZED DEDUCTIONS,
CALENDAR YEAR 1965

Adjusted gross income ¹	Under present law	Under H.R. 8363		
		Amount of tax	Tax reduction	
			Amount	Percent- age
\$5,000.....	\$300	\$220	\$80	27
\$6,000.....	456	340	116	25
\$7,500.....	720	564	156	22
\$10,000.....	1,196	976	220	18
\$12,500.....	1,664	1,380	284	17
\$15,000.....	2,213	1,847	366	17
\$17,500.....	2,772	2,322	450	16
\$20,000.....	3,410	2,858	552	16
\$25,000.....	4,821	4,032	789	16
\$30,000.....	6,420	5,377	1,043	16
\$40,000.....	10,188	8,537	1,651	16
\$50,000.....	14,576	12,267	2,309	16
\$75,000.....	24,952	21,189	3,763	15
\$100,000.....	36,720	31,201	5,519	15

¹ Wages and salaries.

Mr. JONES of Missouri. Mr. Speaker, will the gentleman yield for a couple of brief questions?

Mr. MILLS. I yield.

Mr. JONES of Missouri. I take it from the statement of the managers that the Senate receded on amendment No. 1, declaring the sense of the Congress, but I should like to ask what in the opinion of the chairman would be his interpretation of a brief transitional period before we would raise revenues under this bill.

Mr. MILLS. I would anticipate that after fiscal year 1965, because there will be in that fiscal year a net reduction in revenues, taking into consideration the increase that we expect in the economy, of about \$4.5 billion under the conference report—I would think that by fiscal year 1966 we would be well back to where [P. 3440]

we are now with these higher rates of taxation.

Mr. JONES of Missouri. One other brief question: Does the gentleman see anywhere in the foreseeable future that we will be able to reduce the public debt?

Mr. MILLS. Yes. We are not going to do it, apparently, on the basis of the present rates of tax. We have not done a very good job of it since World War II. I think there is a possibility of a balanced budget within a reasonable period of time, as suggested here in the preamble. Any time we have a balanced budget, that means that we have some excess of revenues over spending that can go no place except into the discharge of some of the previously created indebtedness.

Mr. JONES of Missouri. Then, with my confidence in the gentleman from Arkansas, I intend to support this conference report, relying on his statement.

Mr. LAIRD. Mr. Speaker, will the gentleman yield?

Mr. MILLS. I yield to the gentleman from Wisconsin.

Mr. LAIRD. The gentleman from Arkansas mentions the fact that the budget figure for 1965 was in the motion to recommit that was made in the House when the bill was under consideration.

Mr. MILLS. I was referring to the spending budget.

Mr. LAIRD. Will the gentleman admit that the spending budget in 1964 was at least \$600 million more than the amount which his committee promised in November would be the figure for fiscal year 1964?

Mr. MILLS. No, we were talking about the cash rate of spending, as I recall, when the Secretary of the Treasury gave us certain figures. I will check with him, but I had understood he was talking about the actual cash spending by the Government.

Mr. LAIRD. That is what the other refers to, the actual cash spending. They are comparable figures.

Mr. MILLS. It was not over \$100 million as he used the figures, but this rate of spending, as the gentleman knows, in the budget, \$97.9 billion, those are the figures I am referring to.

Mr. LAIRD. As to fiscal 1965.

Mr. MILLS. That is right.

Mr. LAIRD. But in the fiscal 1964 figures there has been an increase by \$650 million, according to their own estimate, and according to the estimate of others, over \$1 billion.

Mr. MILLS. There has been that increase in 1964.

Mr. GROSS. Mr. Speaker, will the gentleman yield?

Mr. MILLS. I yield to the gentleman from Iowa.

Mr. GROSS. I understand that the Internal Revenue Service or the Treasury Department has caused to be printed thousands upon thousands, running into untold thousands of dollars of printing expense, of revised tax guides.

Mr. MILLS. The Internal Revenue Service did, at the direction of the conferees, reprint tables incorporating the 14-percent withholding rate.

Mr. GROSS. What are you going to do if this bill does not pass?

Mr. MILLS. We are all optimistic.

Mr. GROSS. Who is going to explain the expenditure of thousands and thousands of dollars if the bill does not pass, and I hope it does not.

Mr. MILLS. The conferees on the

part of the House and Senate felt that both branches would take the conference report. We certainly hope that they will, and we feel that they will.

(Mr. MILLS asked and was given permission to revise and extend his remarks and to include certain tables and charts.)

Mr. MILLS. Mr. Speaker, I yield 10 minutes to the gentleman from Missouri [Mr. CURTIS].

Mr. CURTIS. Mr. Speaker, I did not sign the conference report and it is my recommendation that the House not accept it. This is a poorer measure than that which passed the House.

Let me start on an affirmative note, however, and state that I do agree with the gentleman from Arkansas, the chairman of the committee [Mr. MILLS], that in many respects, in the technical aspects of the amendments, this is a better bill than that which passed the House. A lot of improvements were made.

My basic objection goes back to the economic premise upon which this tax bill was first presented to the House and on the basis of which it passed the House and then went over to the Senate and then came back from conference.

In reference to the economic premise, this is a much inferior bill to that which passed the House. The economic premise, of course, was to stimulate the economy. Those of us who have opposed this bill at this time were not opposing it on the basis of opposition to the need for tax reform. In fact, we argued with those who are now supporting tax reform that they were Johnny-come-latelies; but that this has to be done in the context of and with expenditure reform. The counterargument, I might say, to this theory of stimulating the economy without expenditure reform is that it will basically damage the economy through inflation and through further increases in unemployment and in an aggravation of our very serious international situation with regard to balance of payments.

To restate the bare bones of this argument—

First. Our economy is vigorous—not tired and lethargic.

The administration's theory is predicated on the fact that the economy is tired and lethargic and needs a stimulus, that it needs a shot in the arm, if you will notice their figure of speech.

Our point is that our economy is growing so fast that it has growing pains and that the tax structure is impeding this economic growth.

Using this figure of speech, it needs bigger shoes and larger clothing and

fresh air and exercise—and not shots in the arm.

Now as to the second part of this syllogism—

Problems in the field of debt management are as dangerous and as restrictive on economic growth as the problems that we all recognize exist in the tax field.

Voting for a tax cut without real expenditure reform simply transfers the tax problems over into debt management problems.

This is the situation as it exists. So the dispute, as it develops here on the floor of the House and even before it came to the floor of the House, was over the question of expenditure reform. Fortunately, the theorists behind the administration proposal had no spokesman on the floor of the House during the conduct of debate.

The only spokesmen who spoke for the tax bill did so on the grounds that they were bringing about expenditure reform.

Members will recall the Mills preamble to the tax bill, as it passed the House, which said it was the sense of Congress that there would be expenditure reform. Gentlemen and ladies of the House, that preamble has been dropped in the conference report.

Mr. MILLS. Mr. Speaker, will the gentleman yield?

Mr. CURTIS. I yield to the gentleman.

Mr. MILLS. I remind my friend that the other body receded on the amendment and the preamble is in the conference report.

Mr. CURTIS. Oh, you left it in?

Mr. MILLS. Yes.

Mr. CURTIS. I thought it had been knocked out. Let us be sure on that.

Mr. MILLS. Look at the conference report.

Mr. CURTIS. Very well.

Mr. MILLS. On the first page it shows that the Senate receded on amendment No. 1.

Mr. CURTIS. I stand corrected. I thought the preamble had been dropped. It might just as well have been dropped.

I might add that, in the debate over the preamble, there was a question of whether good intentions would conform to actuality.

Now I wish to talk to my Republican friends primarily. The Republican proposal in lieu of the preamble had two parts to it. First, that the expenditure level for the fiscal year 1964 be kept at \$97 billion; and, second, that the expenditure level for fiscal year 1965 be kept at \$98 billion.

Some of my Republican friends have a feeling that because the Johnson ad-

ministration has come in with its 1965 expenditure level predicated at \$97.9 billion—note how they just got under the \$98 billion—therefore, the preamble, as in the Democratic proposal and in the bill, and the Republican motion to recommit have been fulfilled; but the point is that the most realistic of all figures, of course, are the figures on expenditure levels for the current fiscal year. A 3. -

The Kennedy administration in November was down to \$97.8 billion for fiscal year 1964. Under the Budget and Accounting Act, the administration is required to give a new January estimate for this figure. The Johnson administration estimate increased it by \$600 million, to \$98.4 billion. This was done at the same time that headlines were being created, talking about turning off the [P. 3441]

lights at the White House and cutting back on Cadillacs. In other words, there has not been a conformity to the preamble which the chairman put into the bill or to the Republican motion to recommit.

So far as the realistic figures contained in the \$97.9 billion estimate for fiscal year 1965 and the rest of the Johnson budget are concerned—and I am talking now to my Republican friends—the Bow committee, riding herd on these expenditures, met only yesterday and came forth with a very good analysis of this budget. To use a short word, they called it "phony" so far as holding to these expenditure levels is concerned.

This has nothing to do with parties. The issue before us is, regardless of these party positions, what are the facts so far as the economy of this country is concerned? Will we stimulate the economy to a point that we will have a boom which will then lead to a bust?

I suggest that the record and the budget itself and the figures reveal that the preamble is not being lived up to any more than was the expenditure level for 1964 reduced. Indeed, that expenditures were actually increased.

Furthermore, I wish to say that the President's Economic Report points out the real facts. The President's Economic Report, filed only a month ago, says that Federal expenditures will increase \$2.5 billion from calendar year 1963 through calendar year 1964. There is the truth of the matter.

Furthermore this budget—this is the administration's statement—will give the greatest stimulus to our economy of any Federal budget ever presented. In other words, expenditures are not cut. This is the truth of the matter: The conference report before us now accele-

rates the heating up effect of the tax bill by accepting the Senate version of accelerating the new withholding so that the major impact of this tax bill is forced right into calendar 1964 and will cover a 12- to 18-month period instead of the House version which would have spread this tax cut over a period of 24 to 30 months. Therefore, we are making this economic picture worse and moving forward into a boom and bust posture.

I want to make two additional major points. We are adopting a new fiscal theory in accepting this conference report, on deficit financing. We are abandoning the old theory of deficit financing even before it has established its merit. The old theory was we balanced out the deficits we created in economic declines through the surpluses during period of economic upsurge. Today, in 1964, no one denies we are in a period of economic upturn, at the top. This is the very time when we should be recouping and paying off on the Federal debt, according to that old theory. The new theory is to balance the budget in periods of full employment, whatever that means.

The SPEAKER. The time of the gentleman from Missouri has expired.

Mr. MILLS. Mr. Speaker, I yield the gentleman 2 additional minutes.

Mr. CURTIS. The gentleman is being very helpful, but I am the only one speaking against the bill. I will try to finish in 2 minutes.

The new theory that this bill is predicated on is we balance the budget in periods of full employment, whatever that might mean. According to the administration, they think it might mean 1967. According to the eminent economist Dr. Arthur Burns, it means probably 1972. But it is certainly a brand new theory and completely abandons the Puritan ethic. Secondly, I think we ought to judge our present decision by the immediate past. The gross national product estimates of the President's Council of Economic Advisers for fiscal 1963 were based on a tax cut in 1963. Indeed the Council said if we did not have a tax cut in 1963, we might face a recession. So the Congress in its wisdom did not give a tax cut in 1963. What was the result? We exceeded the growth estimates of the Council of Economic Advisers measured in gross national product in what this economy of ours did, without this kind of false stimulus, without this damaging kind of a stimulus of a tax cut without expenditure reform in a period of cyclical upswing. Yet here we are with more reasons than in 1963 not to pass this in-

fiscal 1964, accepting a conference report which aggravates and heats up the economy even more than did the bill that passed the House.

Finally, as to a technical matter but a very serious one, there are contained in this bill a number of Senate amendments that are completely ungermane to the bill that passed the House. I have tried to point out time and again over a period of many years under the Constitution revenue measures must originate in the House. The Senate's authority is only to amend. If that power of amendment is to have any meaning at all, there must be some ruling on germaneness. Regrettably the House has not held the line on this and we did not in this case. We have had matters put into this conference report on amendments of the Senate which the House Ways and Means Committee had no opportunity of going over or studying them let alone the House having the opportunity to consider them. I would regard these Senate proposals as unconstitutional. I hope the time will come when the House will make a determined fight to preserve this basic feature of the Constitution which is based on such sound reasoning.

Mr. MILLS. Mr. Speaker, I yield 2 minutes to the gentleman from Michigan [Mr. Knox].

(Mr. KNOX asked and was given permission to revise and extend his remarks.)

Mr. KNOX. Mr. Speaker, as a member of the conference committee on the part of the House I rise in support of the conference report. I do so because I feel strongly that the bill now as agreed to between the House and Senate conferees is a better bill and a much more justifiable bill than was the legislation which we had before us at the time the House first considered this measure. This is true, plus the fact that as I recall the motion to recommit did call for a limitation on expenditures for fiscal year 1965 in the amount of about \$98 billion.

Mr. Speaker, the President's budget as submitted to the Congress does call for the expenditure of approximately \$98 billion, as we had previously hoped to write into the motion to recommit.

Mr. Speaker, it is my hope that the President is sincere in the budget which he has sent to the Congress. I agree with our chairman of the Committee on Ways and Means, the gentleman from Arkansas [Mr. MILLS], that it is up to the Congress to bring about fiscal responsibility as far as spending is concerned. It is my hope that the conference report will be adopted and that this

will become an actuality. It is my further hope that Congress will at least do its best to control spending, within the anticipated budget which the President has sent to the Congress.

Mr. Speaker, some 5 months ago this House considered H.R. 8363. At that time I opposed the bill; first, because I felt a number of the substantive changes in our tax laws it called for were unwise, but primarily because I felt it was economically and fiscally unjustifiable. Today as a member of the conference I rise in support of this legislation, and urge you to adopt it. There are a number of reasons for this apparent change in my position, but they largely involve changes made in the bill itself, coupled with changes in the fiscal climate in which we are now considering it.

I should like to deal first with the substantive provisions of the bill. Naturally it is far from perfect, either in my eyes, or those of anyone else I am sure. As tax reform it leaves much to be desired. Unfortunately, it still complicates rather than simplifies our already overly complex tax structure. Yet it is certainly a vast improvement over the bill that left this House last September. Although I would have preferred to see it contain some reduction in capital gains rates, perhaps it is best they were left pretty much alone by the Senate in light of the highly confusing nature of the capital gains structural changes envisioned by the House bill. I am particularly encouraged by the Senate action and that of the conference in regard to the deductibility of State gasoline taxes. There was no justification for their removal in the House bill except perhaps as a revenue raising measure, and in that respect they struck off in the wrong direction. We have long recognized the validity and equitability of deducting State taxes of this general type, and it is best that this should continue. There are other areas in the final bill with which I do not agree, but this bill as it now stands is probably the best we can hope for. There is one area in which I still have considerable reservation, however, and that is the area of withholding on wages and salaries. The cut adopted by the Senate and accepted in conference from 18 to 14 percent is far too great a cut at this time. To begin with, it may well mislead a great many taxpayers into

[P. 3442]

believing they are getting a much greater tax cut than is actually the case. This will result, of course, from the sudden jump in take-home pay that will occur in mid or late March for millions of hourly and salaried employees. It

may also mean that a great many persons who previously have counted on refunds or at least breaking even come tax return time will find next year that they owe substantial amounts to the Treasury due to underwithholding this year. Many commentators have also pointed out that this drastic slash in the withholding rate could well result in an overly inflationary boost to the economy now followed by depressing effects next spring when millions have to tighten their belts to cover tax balances due. I feel that a 15-percent rate at minimum would have been far more realistic and far less misleading.

At the same time, I feel the justification for tax cuts is on a much sounder fiscal basis than last fall. You will recall that at the time we were considering the bill in September, a Republican amendment was offered which would have made any tax cuts conditional on the rate of expenditures being held at \$97 billion for fiscal year 1964 and \$98 billion for fiscal 1965. This amendment was defeated, and a declaration of intent inserted in the bill expressing the sense of Congress that Federal spending should be restrained. At the time the bill was before the House there was no assurance that such restraint would be forthcoming or even seriously contemplated. With the past few weeks, however, we have received a number of messages from President Johnson and have witnessed what appears to be an economy drive in the Federal Government. Although I still have my doubts as to the validity of many of the fiscal year 1965 budget figures, I am willing to take President Johnson at his word, so far as promised restraint in Federal spending is concerned. At the same time, there has been increasing evidence here in Congress that perhaps we are ready to get serious about economy and approach sensibility in fiscal matters. In effect, the fiscal background against which we seek to justify these tax cuts has improved considerably since last fall, enough so that I feel I can support the adoption of the conference report at this time. Nonetheless, we here in this House must realize that it is incumbent on us to follow through on the promises of forthcoming fiscal sanity. In the months to come as appropriation bills reach this floor, we must consider each in the light of the extent to which they are in accord with this pledge we are making. It is my fervent hope that all this economy talk was not simply for the purpose of "greasing the skids" for the tax bill, but instead will serve as a spur to positive action on our part to in-

sure that this tax cut does not become meaningless in a wave of inflationary pressures.

In conclusion, Mr. Speaker, may I say that while I have considerable reservation about the bill itself and the fiscal course we have been taking, I nonetheless feel that internally H.R. 8363 is much sounder than before and the fiscal situation has improved enough and holds sufficient promise of future improvement to justify passage at this time.

In light of the fact the passage has been so long promised there might well be serious repercussions in our economy should final action be further delayed. For these reasons, I urge your support for acceptance of the conference report on H.R. 8363.

Mr. MICHEL. Mr. Speaker, will the gentleman yield?

Mr. KNOX. I yield to the gentleman from Illinois.

Mr. MICHEL. The speaker preceding the gentleman from Michigan, the gentleman from Missouri [Mr. CURTIS] addressed himself to debt management. If Members vote for this tax bill and if there is a resulting loss in revenue, would we not in fact have to vote for an increase in the national debt limit?

Mr. KNOX. I think that is a forgone conclusion at this time and it has been for some time in the past that there will have to be an increase in the national debt limit in order to bring about solvency insofar as the Treasury is concerned in meeting its obligations.

Mr. MILLS. Mr. Speaker, I yield 10 minutes to the distinguished gentleman from Wisconsin [Mr. BYRNES].

(Mr. BYRNES of Wisconsin asked and was given permission to revise and extend his remarks.)

Mr. BYRNES of Wisconsin. Mr. Speaker, I yield such time as he may consume to the gentleman from Virginia [Mr. BROYHILL], a new and distinguished member of the Committee on Ways and Means.

Mr. BROYHILL of Virginia. Mr. Speaker, I thank the gentleman.

(Mr. BROYHILL of Virginia asked and was given permission to revise and extend his remarks.)

Mr. BROYHILL of Virginia. Mr. Speaker, my colleagues recently honored me with the high privilege of serving on the Committee on Ways and Means. I welcome this opportunity to serve and pledge my dedicated efforts in fulfilling my responsibilities in this assignment to the people of the United States and to my constituents in the 10th District of Virginia.

The tax bill, H.R. 8363, that is about to

be passed by the Congress is designed to release almost \$12 billion into our economy. The tax rates that have been imposed on our citizens are voracious and oppressive, and that relief is needed in beyond question.

Mr. Speaker, notwithstanding the passage of this legislation to lighten our tax-load, I have several doubts as to possible effects that could come in the future.

We have been given assurances that fiscal restraints in Federal spending to eliminate budget deficits will accompany this tax reduction. I wonder whether we are prepared to exercise the disciplines of frugality that are essential to justifying a tax cut of this magnitude. I pray that this will be the case, for if it is not, the taxpayers of this country can be the victims of a cruel delusion. I, for one, pledge continuing efforts to exercise the necessary restraints on expansion of Government spending.

There is another aspect of this tax bill which bothers me. The bill provides that for the calendar year 1964 the lowest tax rate is to be 16 percent. The bill further provides that the rate on withholding on salaries and wages is to be 14 percent effective almost immediately. This spread in the minimum tax liability and the rate at which tax is withheld can have severe effects that could be troublesome. This percentage spread can have great effect on the flow and fluctuations of Federal revenue and, therefore, on the rate of deficit over the next 2 years. The temporary reductions in Federal revenues from the lowered withholding rate will put money into the hands of taxpayers quickly. However, in 1965 the true impact of this disparity will also hit the taxpayers. The excess money which has become available through a lowered withholding rate will become available immediately. On April 15, 1965, many taxpayers will find, however, that they owe money on their tax returns or that the tax refund that had been anticipated has either vanished or been substantially reduced. In all fairness and candor this point should be brought to the attention of taxpayers now so that they can plan accordingly.

The effect of these factors contributing to highly fluctuating revenue rates could cause serious imbalances in the immediate future. Fortune magazine of February 1964 aptly summarized this problem by stating that: A35-1

Thus, the United States might conquer its Everest of full employment this side of election day, only to plunge into trouble on the other side of it.

Let us hope this prediction does not come true, but the warning should be heeded.

I have not served on the Ways and Means Committee long enough to have become indoctrinated in all the intricate works of our tax laws or the other problems that come before this distinguished committee.

During my short tenure on this committee I have found that the complexity of the tax laws is staggering. The tax bill upon which action is now being completed is an illustration in point. In addition to the modifications of the rate structure, we find a tax bill of some 400 pages, with volumes and volumes of technical explanation. These so-called structural reforms seem to add a maze of new provisions that only the most sophisticated fully comprehend. I agree with those of my colleagues who advocate that good tax legislation should simplify, not further confuse and complicate. I trust we will conscientiously continue to advocate tax legislation which is both remedial and simplified.

The scope of tax legislation in these days and times is such that it can be the root of our economic survival which can nourish our economy or wither it into trouble and inflation. A35-2

Mr. Speaker, I urge that we all pledge to a continuing program of fiscal discipline so as to justify this tax reduction and avoid the dangers of inflation in the future. If there are pitfalls ahead,

[P. 3443]

let us be prepared to accept the consequences and seek to eliminate any such consequences quickly and effectively. I consider it an obligation on my part to bring to the attention of the House not only this word of caution but those facts I find in the future which may be at variance with the promises that have been made by those who urged this tax reduction upon us. I trust that the future will not show that this tax cut is a political exercise in economic gamesmanship.

Mr. BECKER. Mr. Speaker, will the gentleman yield for the purpose of answering one brief question?

Mr. BYRNES of Wisconsin. I yield to the gentleman from New York.

Mr. BECKER. Is it not a fact that the situation now is very little changed from that which existed at the time we passed this measure initially, and that is this: that this tax cut must be financed by borrowed money in order to have a reduction in taxes?

Mr. BYRNES of Wisconsin. I would say that the situation has changed. I shall go into that in my remarks. I would say that the situation has changed between now and last September when we voted on the tax bill. There is no ques-

tion but that this tax cut will entail some borrowing. When you reduce taxes by \$11 billion for a period you will have to make up the difference through borrowing. But there is a normal growth in revenues of \$4 to \$5 billion annually. If you control spending, the revenues will be brought into balance.

Mr. BECKER. That is right. I thank the gentleman for yielding.

Mr. BYRNES of Wisconsin. There is no question about it.

Mr. MILLS. Mr. Speaker, will the gentleman yield?

Mr. BYRNES of Wisconsin. I yield to the chairman of the committee.

Mr. MILLS. I wish my friend the gentleman from Wisconsin [Mr. BYRNES] would point out to my friend the gentleman from New York [Mr. BECKER] that really we have no certainty that we will not be borrowing money in the next fiscal year if we defeat this tax bill. We do not know what the situation will be. We could have to borrow money then.

Mr. BYRNES of Wisconsin. I think it can be said with certainty that whether or not we pass this bill, if the rate of spending continues as projected, we are going to have to come back here before June with legislation increasing the borrowing authority of the President.

Mr. Speaker, I rise in support of this conference report. I think the report itself represents a reasonable adjustment of the differences between the bill as it passed the House and the bill as it passed the Senate. In fact, I would say some of the Senate provisions which were accepted in the conference improved the bill.

I would like for a few brief moments to address myself more to the bill itself which has had a hard and long journey, and I think it is a good thing it did have a long and hard journey because it is an immeasurable improvement from the original proposal that was sent to the committee by the executive branch. Certainly, part of the delay is attributable to many complex so-called "reforms" advanced by the Treasury. You cannot write 300 pages of complex legislation overnight. In fact, you can never be reasonably sure of the effect of such legislation—unless and until those affected around the country are given an opportunity to see what you are doing and to make their views known. But this was not the real cause for delay. When this bill was first sent up to us, the Congress and the people had no stomach for tax reduction in the face of steadily increasing Federal expenditures. We have witnessed a change in thinking on the part of the administration—and the Congress—with respect to spending.

I have always been in favor of tax reduction. It has been my longstanding position that excessive tax burden and steeply progressive rates should be reduced.

I expressed my approval generally of the bill as it came from the committee and was debated in the House last September. I pointed out at that time some items in the bill with which I differed; but as a general proposition I was ready to concede that the bill was acceptable as tax legislation. But, I fought for an honest tax cut, which would be accompanied by a sincere effort to control runaway Federal spending. I opposed the idea that tax reduction and increased Federal spending could be coupled together, without bringing fiscal disaster.

I would like to restate my position today, not only as it relates to this bill, but as it relates to the fiscal policies which will be adopted by the Congress and the Government. Even after this bill becomes law our tax rates will be too high, the rate progressivity will be too steep, and the code will be needlessly complex. This bill does not reduce the steepness of the rate schedules. It does not make the code less complicated. In fact, it makes it more complicated. The Commissioner of Internal Revenue Service just the other day pointed out that the new forms that will be necessary under this bill will be more complicated than the forms we are filing this year.

When this bill was before the House last September I conditioned my support on obtaining a commitment both from ourselves and from the President to hold the line on spending. I said then, and I repeat now, that if we pass this bill without restraints on spending we will be creating a time bomb for inflation. I said then, and I repeat, this reduction will be meaningful, safe, and permanent, only if we put restraints on spending. The gentleman from Missouri [Mr. CURTIS] in opposing this bill has issued a note of warning and caution. All of us who are in support of the bill should bear in mind we are flirting with real danger if we pass this bill, then forget about the need to maintain restraints on spending.

But let me differentiate briefly between the fiscal situation that existed last September and the situation that exists today. At that time the Congress had only started work on the appropriation requests for fiscal 1964.

The President at that time was asking for some \$108 million of new obligational authority. We did not know what part of that amount would be granted by the Congress. The administration was pro-

jecting an expenditure budget for 1965 of \$102 billion, an increase of \$4 billion over that proposed for 1964. We were being told by the President's advisers that spending could not, and should not be reduced; that to reduce spending would nullify the benefits of the tax cut.

At that time, as spokesman for the Republican members of the Ways and Means Committee, I proposed that the tax reduction should be conditioned on a further reduction in 1964 expenditures and a level for expenditures for 1965 of not in excess of \$98 billion. A majority of the House of Representatives refused to concur in that proposal, and I therefore voted against the passage of the bill. But my efforts were not wholly in vain. What has transpired since last September justifies a favorable vote on the conference report today. First, to the credit of the Congress, and to the credit of the Appropriations Committee, the Congress cut back on the President's appropriation requests by over \$6 billion. That is a considerable improvement in our fiscal situation over what we faced last September.

We were told last September that expenditures for fiscal 1965 would be between \$102 and \$103 billion. Less than 4 months later, the President has submitted a budget calling for fiscal 1965 expenditures of \$97.9 billion, thus vindicating our position last September. We were ridiculed at that time, if you recall, for suggesting that we could operate the Government in fiscal 1965 under a ceiling of \$98 billion.

I am not saying that we can just sit back and assume that this \$97.9 billion will hold up as the ceiling of expenditures for fiscal 1965. But let me point this out: Under the Budget and Accounting Act, the President is required, whenever he makes any change in the projected budget of \$97.9 billion, not only to justify the increase but to account for its omission from the original budget. I would hope that the President himself will stand by his own budget estimate figure. If not, I would hope that this Congress and the Appropriations Committee in considering supplemental requests will hold the President to the \$97.9 billion.

I recognize that this new request for new obligational authority contained in the budget leaves much to be desired.

On the other hand, the request for new obligational authority for fiscal 1965 is \$4 billion below the amount requested for fiscal 1964. If the Congress does its job as well as it did last year, we can expect a substantial reduction in this request. Again, I would hope and pray, and my position is based on the fact that

our Appropriations Committee in this Congress will be as diligent in 1964 in cutting appropriations and cutting back on requests as we were in 1963 in considering the fiscal 1964 budget.

I am willing, Mr. Speaker, in this vote to make two assumptions: First, that the President will stand by his self-imposed

[P. 3444]

ceiling on expenditures of \$97.9 billion, and I am willing to assume that the Congress can and will make substantial cuts in the requests for new obligational authority.

Second, I am basing my position on faith that the President, the Congress and our people, both business and labor, will exercise restraint. I trust that that faith will not be misplaced.

But let me conclude with this caution. In the face of a tax cut of \$11.5 billion, on top of a deficit of some \$10 billion for fiscal 1964, our risk is great. A minimal dose of inflation will offset billions in tax reduction. Our action today will be a cruel hoax on our retired citizens living on fixed incomes, on those who are buying life insurance, or Government bonds—including those of our States and municipalities. We rob all of these through inflation.

Our action today can bring about devastating inflation if we fail to use commonsense in our monetary policy—if business and labor fail to exercise an inflexible control over prices and wages, and if the Congress and the President do not live up to their pledges of economy in Government.

If we pass this bill and then forget about the need to hold the line on spending, we will be inviting disaster. In voting for this bill, I hope each and every one of us binds himself to that provision that still remains in the bill as section 1—to a firm commitment against unnecessary spending.

The passage of this bill and its approval by the President in my book must be considered as a commitment by both the Congress and the President to apply rigid discipline in appropriations and in expenditures. At this time, Mr. Speaker, I certainly pledge my full and wholehearted support to every effort to hold the line.

Mr. STRATTON. Mr. Speaker, will the gentleman yield?

Mr. BYRNES of Wisconsin. I yield to the gentleman.

Mr. STRATTON. Will the gentleman tell us whether he supported our move on the floor last Thursday to cut \$92 million in unnecessary spending out of the defense authorization bill?

Mr. BYRNES of Wisconsin. I voted

for \$92 million because in matters of national security I am guided by the committee.

Mr. STRATTON. It was not asked for by the President and it was opposed by the Secretary of Defense as being unnecessary.

Mr. BECKER. Mr. Speaker, will the gentleman yield?

Mr. BYRNES of Wisconsin. I yield to the gentleman.

Mr. BECKER. I might say to the gentleman that he is expressing a great deal of faith as to what is going to happen. I, as one Member of this House, have faith in the action that we had taken in the past and what we could do now before this came up in matters of spending and giving the people a legitimate tax cut and not do it on the basis of having to go out and borrow money and increasing the debt ceiling and the debt cost. Insofar as that is concerned, I appreciate the gentleman's remarks.

The SPEAKER. The time of the gentleman has expired.

Mr. WYMAN. Mr. Speaker, Congress has no business voting to reduce taxes at a time such as the present when our Government is continuing to operate at a deficit. The costs of running the U.S. Government exceed Federal revenues by many thousands of millions of dollars a year and the present administration has shown no truthful intention to stop this march toward national bankruptcy. For Congress now to reduce taxes without at the same time reducing Government expenditures by a substantially equivalent sum is like trying to have our cake and eat it too. It cannot work, despite the learned rationalizations of economic theorists.

To reduce taxes when times are relatively good as they are presently, at a time when the Dow Jones averages have exceeded 800, when compelling reason exists to reduce Government spending instead of reducing its revenues in the teeth of existing inflationary trends, is to pour gasoline on a burning fire. We may have a briefly hotter flame, but after it has burned lower, the placing of Government fiscal policies on a businesslike basis will be rendered much more difficult.

One would think this to be so elemental that the Members of this body would not yield to the political pressures now being brought to bear in support of this move toward conflagration. A vote against this conference report is a vote for sound money. It is a vote to keep some semblance of national fiscal integrity. It is a vote not to steal from Americans who have accumulated savings or who hold fixed dollar credits that will be eaten away by the rash of infla-

tion bound to follow the enactment of this bill.

I voted against the tax reduction bill when it was before us last year. It has not been essentially altered in conference. Instead of increasing tax revenues it will lower them. More than this it will substantially increase the national debt. What this tax reduction really does is to borrow money and have us go further into debt to pay taxes. It will only aggravate and worsen our acute fiscal deficit, not help to solve it. No sound business can long remain sound if it borrows money to meet current operating expenses.

This legislation, while paying lip service to the stimulation of our economy, is actually a political maneuver to obtain votes to reelect the present administration that this fall will claim it reduced individual taxes and increased take-home pay in an election year. Upon any careful thought, however, the immediate beneficiaries of this tax reduction are bound to discover that while they appear to gain in the short run, they lose more in the long run. This loss is measurable in the decline of the purchasing power of their dollars as well as in the less tangible, yet inevitable, loss of self-respect of a people that know he who dances must pay the fiddler; that understand deep down that it is their obligation to their children to pay their own bills and not to charge more monstrous debt to the next generation.

The fiscal direction of the American economy with this bill is toward financial disaster, not toward an improved economy. The immediate effect will be sharply increased perils of inflation. This, the stock market already has to a certain extent anticipated. In the long run, if we persist in spending more than we take in there looms the inescapable and larger peril of devaluation of our dollar. Beyond this lies the real prospect of a major depression for there is little in this proposal to assure any true regeneration of productive capacity. It is merely an injection of a temporary stimulant to keep us going through November at a binge level. It will thereafter leave us with a national economic hangover and with greater problems for every man, woman, and child in this country.

This tax bill will not create more income from a reduction in revenues. This is a literal impossibility. In the future it will be infinitely more difficult to impose new taxes than it is now to individually reject this legislation that means summon the necessary intestinal fortitude to reject this legislation that means more and more debt for each American family.

The reduction of personal tax liability averages nearly 20 percent, but the principal impact is in the very lowest income brackets where it reaches a rate of nearly 30 percent. This does not create working capital. Most people will not use this money to achieve means with which to make more money. Rather, they will use it principally to help reduce the already fearfully excessive private debt with which they are burdened and which is attaining dangerous levels in America.

The Federal Government should be an example of fiscal responsibility to our people. It should not play politics with the solvency of the country. The risk of insolvency, of eventual national bankruptcy or a moratorium on national obligations should be sufficient cause to reject this bill. A greater cause is that an \$11 billion reduction in Government revenues assures fiscal weakness. It enervates America's capability to sustain the cost of any prolonged need for extraordinary expenditures to defend the United States should a national emergency again confront us.

This tax reduction without reducing spending is fiscal irresponsibility of the highest order. Regardless of its political attractiveness or its undeniable short-range political appeal, we in the Congress owe it to the American people to reject proposals for tax reduction that are not matched by a reduction in Federal spending. Just as the claim that the present tax reduction is a boon is a myth, so is the contention that sharply reducing our national income can increase it. We should pay our bills as we go.

Henry Hazlitt has pointed out some of the basic facts in a column published yesterday entitled "Phony Tax Cut." I commend its thoughtful reading by all concerned citizens, whom I firmly believe will deplore and eventually reject

[P. 3445]

this politically inspired tax reduction that means for most citizens less value in dollars saved, less assurance of real dollars to be earned, less certainty of continued job protection, less value in old age pension and welfare checks and a greater risk that the entire national economy may disintegrate in a major recession and eventual depression from which the America that we now know and love may never be able to rise again.

PHONY TAX CUT

(By Henry Hazlitt)

By a vote of 77 to 21 the Senate has passed substantially the same tax cut bill as that passed by the House in September. So the country is certain to have a new tax law, bad in almost every respect.

A tax cut of \$11 billion, accompanied by a sufficient slash in spending to insure a balanced budget, would have been a genuine stimulus to long-run economic growth. But the present tax cut is a fraud on its face. It is enacted in a fiscal year when the Treasury already expects a deficit of \$10 billion, and looks forward to another deficit in the next year of \$5 billion. So we are borrowing to cut taxes.

The tax cut may turn out to be deceptive in a double sense. It is called a tax cut of more than \$11 billion. Yet in the face of this, the Treasury blandly estimates that tax revenues will be \$4.6 billion greater in fiscal 1965, when the cut is fully effective, than in 1964, and \$6.6 billion greater than in fiscal 1963.

The theory is that the tax cut itself will make us so prosperous that even the revenues will increase. This would no doubt have been possible if the confiscatory and unproductive tax rates above 50 percent in the higher brackets had been cut down to that level. But the slash is mainly in the lower tax brackets. It reduces the aggregate tax liability by an average of 19 percent. It reduces the tax liability of persons in the lowest bracket by 38 percent.

IMPLAUSIBLE ESTIMATE

It would take an average increase in taxable incomes of more than 20 percent to realize the Treasury's estimate of higher income tax revenues. That is just not plausible. If it were achieved in dollar terms through inflation, Government spending would increase correspondingly. The 1965 deficit may be nearer to \$10 billion than to \$5 billion.

There would have been some compensation if the tax cut had been accompanied by real tax reform—if the burdens on production had been lightened; if the punitive income tax rates above 50 percent had been abolished; if the one-sided capital-gains tax and the double taxation of corporate dividends had been mitigated. Instead, by reducing the already lower rates much more percentage-wise than the higher rates, the scale of graduation has been made even steeper. Even the mere token dividend credit of 4 percent (far lower than that of Canada or Great Britain) has been abolished. Though corporation tax rates have been reduced, the reduction is offset by advanced collections.

SOAK THE RICH

Thus a shortsighted soak-the-rich and penalize-the-productive philosophy has prevailed, even though it will stunt our economic growth, and slow down the increase in capital accumulation and investment upon which a nation must depend for all improvement in economic conditions, for any increase in real wages, and for any permanent success in a war against poverty.

Insofar as there is any theory behind the tax cut except how to win the coming election, it is an extreme and discredited Keynesianism. It is the theory that the way to increase prosperity and employment is to increase "consumer spending." If you cut taxes, so the theory goes, consumers will have more to spend, and business, selling more, will provide more jobs. What this overlooks is that our unemployment is the

result of excessive wage rates and labor costs in some lines as compared with productivity. So if wage demands go up as much as prices, the unemployment will remain.

When Government expenditures are higher than revenues, the difference must somehow be paid for. If the deficit is met by selling bonds to savers, the Government will absorb the investment funds that would normally be used by business. What the advocates of the tax cut are really depending on, therefore, is that the difference will be paid for by newly printed paper money. This will further raise prices, lower the purchasing power of the taxpayers' remaining money, reduce world confidence in the dollar, and increase the balance-of-payments crisis about which the administration professes to be so concerned.

GENERAL LEAVE TO EXTEND

Mr. MILLS. Mr. Speaker, I ask unanimous consent that all Members desiring to do so may extend their remarks in the RECORD at this point on the conference report.

The SPEAKER. Without objection, it is so ordered.

There was no objection.

Mr. MARTIN of California. Mr. Speaker, the tax reduction bill under consideration today has my support. It will help our economy grow and create more jobs.

It was under a vastly different set of circumstances that I opposed the tax reduction bill passed by the House last September. At that time, we were being told of the prospect of a 1965 administrative budget well in excess of \$100 billion, there were no firm assurances that any attempts were being made to hold down Federal spending or to achieve a balanced budget, and efforts to make tax reduction contingent upon official expenditure estimates of \$97 billion for 1964 and \$98 billion for 1965 were rejected.

Now the President has come forth with a proposed budget of \$97.9 billion for 1965. This represents to me a proper step in the direction of expenditure control and toward balancing the budget. I am supporting the tax bill today on the basis that this new expenditure policy has been presented to us in good faith and in the thought that the President deserves a chance to prove his intentions by not asking for new programs in this session that would substantially increase spending.

Mr. LIBONATI. Mr. Speaker, the tax cut plan formulated at the suggestion and exhortation of our deceased President John Kennedy and pressured into enactment by President Johnson as a simple and direct way of stimulating the economy and increasing the potential of employment for the 5½ million unemployed by putting more funds at

the disposal of the millions of consumer spenders thus giving the purchasing public who keep the dollars circulating from merchant to banker for deposit to manufacturer—loans for production of goods—to merchants' sales shelves, et cetera, to the consumer public and so the cycle continues for a prosperous business economy.

Thus the Government will collect more income and excise taxes to meet the expenses of Government estimated in 1964 as \$5 billion although the late President Kennedy's proposals in January 1963 have been changed in some instances—by reducing some rates less than he had suggested and "watered down" the raising of revenues as suggested in the reform measure. Still the administration predicts that by 1967 the tax cuts will help balance the Federal budget—yielding higher revenues in public spending at lower rates.

Presidents Kennedy and Johnson used every method of approach to stir up public support behind this legislation. The political pressures were primarily alleged to have been used in measurable quality in the Senate. The lightning flash by President Johnson in presenting a 1965 budget at one-half the estimated deficit of the 1964 budget placed the conservatives on the defensive, and won their approval and confidence that the President's pledge would be carried out to reduce Federal expenditures. The House principle thus was substantiated by Presidential action in exerting a restraint in Federal spending. The signal changes were:

First. The taxation of capital gains in the House version of the bill was deleted by the Senate. The House version would have cost the Treasury \$230 million income annually.

Second. The stringent House provision for allowing exclusion of sick pay from capital income was slightly changed and liberalized by the Senate and agreed to by the conferees.

Third. Deleted Senate provision of allowing tax deductions for political contributions up to \$50 per individual and \$100 for a married couple filing a joint return.

Fourth. Estimated Senate provision to extend benefits of the head of a household to other persons who are not now qualified.

Fifth. Also removed Senate provision for tax subsidies to companies that install air and water pollution equipment.

Sixth. Struck out provision—Senate—allowing disabled persons costs of commuting to work. Also giving \$600 to those too disabled to work.

Seventh. Sustained deductibility of

State and local gasoline taxes. Disallowed deduction on drivers' licenses, taxes on autos, alcoholic beverages, tobacco, and selective excise taxes.

Eighth. Also adopted Senate's liberal provisions for deductibility of child care cost by working wives.

Ninth. Adopted the House provision extending from 5 years to an indefinite period the time during which taxpayers may carry forward their capital losses.

Tenth. The various structural reforms adopted both to close loopholes in the law and also liberalize other areas where hardships result.

Eleventh. The open loophole plugged was the elimination of the 4-percent dividend tax credit while doubling the dividend exclusion to \$100 for an individual [P. 3446]

and \$200 for a married couple filing a joint return.

Twelfth. An important hardship alleviation corrected will permit low-income individuals to take standard deduction above the 10-percent maximum. The provision will remove about 1½ million persons from the tax roll.

Thirteenth. Also companies will be allowed to claim depreciation deductions for the full cost of new equipment even though 7 percent of the cost is subsidized by the Government.

Fourteenth. The rules were tightened for computing oil and gas depletion allowances. Tax benefits were also restricted for corporation executives who receive stock options. A 11-1

Fifteenth. The wage earner on the average will receive a 19- to 20-percent tax cut under the bill. The withholding tax will be reduced from 18 to 14 percent bringing an increase of \$800 million a month in take-home pay.

These cuts are being relied upon that effect individuals and corporations to stimulate the economy by consumer spending and business investment creating jobs and preventing a recession—without inflation, which the Congress must guard against by holding down the future appropriations in the Federal spending program.

Individual tax rates will be reduced from the present range of 20 to 91 percent to a lower range of 16 to 77 percent on 1964 income and 14 to 70 percent on 1965 income.

These rates will not affect tax returns now being filed on the 1963 income.

Thus the rates for an individual average taxpayer for 1965 will be 20 percent reduction. Although structural reforms will raise more revenues than are lost, the effect at most will be 1 or 19 percent remaining as a tax reduction.

Corporation rates are reduced from 52 to 50 percent in 1964 income and 48 percent in 1965. A sharper reduction is set for those corporations earning less than \$25,000 per year.

The bulk of the reduction will result in 1964 as follows: Considering tax reductions and structural changes a tax reduction amounts to \$11,480 million, with the greatest amount in 1964.

Individuals amount estimate \$9,120 million of the reduction and corporations \$2,360 million.

Although the House version of the bill provided for more revenue raising thus costing the Treasury about \$11.2 billion and the Senate bill as passed—amended—\$11.9 billion. A 11-2

The bill, at least at present predictions, is considered the answer to relieving the problems of unemployment in the future—1967—and create more or maintain physically the prosperity of the present economy in excess of \$600 billion. It is expected that this bill will in effect add some \$30 billion to our economy in 1964-65—and thus in a statistical projection insure a balance of our economy.

Mr. GRAY. Mr. Speaker, the Internal Revenue Service has come under attack recently on the grounds that its electronic data processing operation is ineffective. It appears to me that these critics—including some of our better newspapers—are engaged in the old numbers game; one that any number can play so long as you know how to manipulate a statistic to suit your purposes. A 11-2

The data processing system is being installed by the Internal Revenue Service, of course, to place on electronic tape, for ready access, the complete income record of every taxpayer. Through this system the IRS can, among other things, cross-check a taxpayer's return against the information it has received from the financial community regarding his income.

I am well aware of the paperwork burden imposed on private business by the Government. But it must be remembered that the new, broad requirement for the reporting of dividends and interest by the financial community was the result of a law enacted by the Congress in recognition of a serious under-reporting problem for such income.

The underlying purpose of this program is to make sure that each of our citizens pays his fair share of taxes under the law. This is certainly a worthy objective and it does not appear to me that the IRS should come under fire because of the sacrifices that must be made to carry out the program. As chairman of the Appropriations Subcommittee that acts on the Internal Revenue Service

budget, I have had an opportunity to explore the data processing system and I am satisfied with the role it is playing in promoting an equitable revenue program.

The recent criticism of the data processing system has been based on the fact that only one taxpayer has been charged with tax fraud to date as a result of detection by the machines. While this is true insofar as it goes, it is also true that 23,000 additional cases of duplicate refunds were found during the 1963 processing of individual returns in the IRS' Atlanta region. These cases are now being investigated by the service.

The Congress tightened the long-standing reporting rules on dividends and interest in lieu of establishing tax withholding at the source as recommended by the administration and to which the financial community was largely opposed. Admittedly, these new requirements constitute an expense for the payer institutions, but the cost is a tax deductible business expense. The obligation of the business entity to assist the Government in the tax collection process is, of course, well established, as, for example, in the withholding of income and employment taxes of employees, and in collection of excise taxes. A. H. 1

The Internal Revenue Service has just begun the third year of its program to convert the processing of Federal tax returns to a system employing the most modern electronic equipment. A national identity file, listing all taxpayers, has been set up on electronic tape, against which returns can be computer checked for some more common types of filing discrepancies. This file, for the first time in 1964, will have nationwide application.

This year, also, the business tax returns for about half the country will be handled by the data processing method. And, in seven of our Southeastern States, both individual and business returns are being handled in the computer-oriented system. Individual and business returns for the remainder of the country will be added by stages during the next 3 years.

The benefits of this modern method of maintaining and checking taxpayer accounts already are becoming apparent, however. Internal Revenue reports increased revenues of \$3.6 million resulted from actual, machine originated verification operations in its Atlanta administrative region where the system was fully operational this year. A large number of other delinquency leads are being investigated in this and other areas. A. H. 2

Furthermore—and I think this is most interesting—some \$3.9 million in added revenue has been volunteered country-

wide during the past 2 years by citizens correcting past returns and filing delinquent returns in recognition of the improved compliance capabilities of the automatic data processing system.

These very early results speak well for the efficacy of this new approach.

I would like to emphasize the fact that the master file system is not a system for introducing automatic data processing into the Revenue Service. Between 1955 and 1960, the use of electronic computers was gradually introduced in returns processing with the establishment of area service centers. In 1961, they started integrating their already automated returns processing with preparation for the master file system. During the period 1955 to 1961, there were savings of nearly 8,000 man-years in returns processed by the use of electronic computers. The additional manpower required by the service in recent years results from the very substantial growth in population and the economy.

Our subcommittee has followed development of the Internal Revenue Service data processing system with particular attention since its inception. Commissioner Caplin and his aids have kept us fully informed of developments and have consulted with the subcommittee members regularly and solicited our counsel. When changes seemed indicated by circumstances, they were made. The subcommittee members have personally visited and inspected the various installations. A. H. 3

I believe this program offers very great advantages to the Government and to the taxpayers of the country who will have added assurance that each citizen pays his fair share. I regard it as one of the most important improvements in tax administration in a generation, and I take pride in the fact that a Virginian, Commissioner of Internal Revenue Mortimer M. Caplin, is playing the major role in the installation of the system.

Mr. BRAY. Mr. Speaker, despite my strong desire to see tax relief for the Nation's taxpayers, I must oppose this conference report because the promised spending reforms are nowhere to be seen.

When one lifts the veil of publicity about how much this administration is economizing, one sees the much-heralded economies will not take place. To the contrary, the greatest mass of

[P. 3447]

new spending proposals in history have been given White House sanction.

To support this inflation-bearing tax bill would be to vote to rob the Nation's pensioners and low-income families who

can least afford another round of higher prices.

Until real spending cuts are made and the budget balanced, tax reduction does not make sense.

The most expensive item in our Federal budget, outside of defense, is the interest on the national debt, running now to more than \$10 billion per year. It is folly to add even more to that debt and that interest burden to give an illusory tax cut.

I realize the voter appeal in a tax cut, but I do not believe that I was elected to Congress to assist in the liquidation of our high American standard of living.

Mr. LENNON. Mr. Speaker, last September during the consideration of H.R. 8363, the Revenue Act, an expenditure control amendment, offered to assure that the administrative budget for 1965 would not exceed \$98 billion, failed to pass. Favoring a tax cut with responsible curbs on spending, I could not in honesty with this conviction support the bill.

Now that President Johnson has submitted a budget for 1965 of less than \$98 billion, I shall support the conference report on the tax bill.

I think it is necessary and responsible for our Government to seek a balance of income and expenditure. My efforts in the direction of sound fiscal policy will continue.

Mr. BETTS. Mr. Speaker, when the tax bill was before the House last September I made my position clear. I was opposed to reducing taxes at a time when there was no inclination on the part of the Executive to control Federal expenditures. In absence of such control, I was convinced that continued Government deficits would bring about ruinous inflation—the cruelest tax of all.

I still have grave misgivings. Nevertheless, I will vote for the conference report.

There has unquestionably been a change in the attitude of the administration and the Democratic majority in the Congress with respect to spending. The tax bill does not today represent a victory for deficit spending. On the contrary, the bill will receive the overwhelming support of this House because of a belief by most of us that fiscal sanity will prevail. I hope and pray that we are right in that belief.

I also hope that the protestations of economy on the part of the administration will survive passage of this bill. I have doubts, but nevertheless feel obligated to support the bill at this time.

The administration has been talking about tax reduction since the summer of 1962. The bill has been under considera-

tion in the Congress for more than a year. The benefits which are expected to flow from tax reduction have been grossly oversold. After all of this propaganda, a failure to enact this bill would work greater harm to the economy than I see in its enactment.

The next task before the administration and the Congress is to exercise that fiscal discipline which will make secure the benefits of these lower taxes. In enacting a tax cut of \$11.5 billion, on top of a deficit of some \$10 billion for fiscal 1964, we are embarking on a program which still involves great risk of inflation. Any real savings resulting from the tax cut will be quickly dissipated through inflation if business and labor fail to exercise control over prices and wages, and if the Congress and the President fail to live up to their pledges of economy in Government. This is a difficult task facing us.

During the past year, most of us have been subjected to unprecedented lobbying by a segment of the business community supporting tax reduction. The same group professes an equal interest in reducing Federal expenditures. I hope that they will demonstrate their sincerity by exerting the same effort against expenditures which they have exerted in favor of tax reduction. This will prove to me, at least, that they deserve to be regarded as responsible members of the business community.

Mr. SCHWENGEL. Mr. Speaker, when the tax bill was before the House last September we were told by those supporting the bill that we did not have to worry about inflation. Since then, however, President Johnson and Dr. Heller both have warned about the inflationary forces that could be unloosed should there be wage and price boosts during the next year. Mr. Speaker, a little over 4 years ago I took the floor of the House to talk about the dangers of inflation, I did so again last fall, and I do so again today.

INFLATION: WE CANNOT AFFORD TO IGNORE IT

Inflation has long been one of our most troublesome domestic problems. This evil persists and continues to haunt us. Thankfully since 1958 the Consumer Price Index, more commonly known as the cost of living index, has advanced at a slower pace than in the two preceding decades.

From 1939 to the present we have seen a continuing decrease in the purchasing power of the dollar. By the end of 1963 the value of the dollar had declined to the point where it will purchase less than 45 cents of the 1939 dollar. Thus the average cost of consumer items has increased by more than 122 percent since

1939. The cost of food has increased by more than 163 percent during this period.

Not only has the cost of consumer items increased by tremendous rates but so has the cost of many other commodities and services; thus the Government must pay greater sums to obtain an equal amount of equipment, weapons, et cetera. Naturally this in turn leads to the necessity for greater Government revenues. Throughout the war and postwar period, the American public has been burdened with heavy taxes. These heavy taxes and the diminishing value of the dollar have produced a situation where an individual with a wife and two children who earned \$3,000 in 1939 would have to earn \$7,319 in 1962 to have the same purchasing power or on the same basis, the equivalent of \$5,000 income in 1939 would have required \$12,594 in 1962.

There are many disasterous effects of inflation. Besides increasing the cost of living, it discourages savings and purchase of fixed return securities, it encourages speculation and investment in more speculative securities, it diminishes the value of insurance policies, annuities, and worst of all, it adversely affects the already inadequate income of the 18 million pensioners.

The most unfortunate aspect about inflation is that it strikes hardest those who can least afford it—retired and other persons on fixed incomes. The 1960 census disclosed that the lowest one-fifth of American families received only 5 percent—one-twentieth—of the total income. The aged, head of family 65 years of age or over, made up 31 percent of this group. Also prevalent in this lower fifth income group were families living on pensions, welfare payments, and working mothers with young children and no male head of household. These families had incomes of less than \$2,800 each. Any change in the cost of living has a very serious and sometimes tragic effect on these people as their income must go almost if not entirely to everyday items of necessity. Also, these families' income are generally fixed. Inflation thus heaps cruel and unfair taxes on many persons who have spent active lives working and saving so as to provide for their later years. Unfortunately, what were adequate amounts have been reduced through inflation to inadequate amounts and these conscientious individuals must suffer for a crime not of their making.

There are some worries that the country may be on the verge of another inflationary spiral or at least an acceleration of the upward movement. The proposed tax cut of \$11 billion probably will increase consumption expenditures by much more than this amount. Not only

will the amount of funds released through the tax cut be considered but also it must be expected that amount of outstanding credit will increase. Business inventories have been increasing in expectation of the tax cut.

Wholesale prices have remained rather steady since 1958, however, recently there have been increases for many commodities. The Consumer Price Index which has steadily increased over the years attained new heights during December 1963 when it reached an index level of 107.6. Thus it would require \$10.76 now to purchase the same items that could have been bought for \$10 in the 1957-59 base period.

Last year the administration urged a tax cut so as to increase the rate of growth of the economy. With a tax cut the administration estimated that the gross national product—GNP—would reach \$578 billion, however, without a tax cut the gross national product surpassed the original estimate by \$7 billion and amounted to \$585 billion for the year.

The administration urges that the full reduction of the individual income tax cut be made effective immediately rather than part in 1964 and remainder in 1965

[P. 3448]

as originally planned, so as to release this money for consumer spending. Business inventories undoubtedly will continue to increase in anticipation of expanded sales. There has been a marked increase in the Consumer Price Index for the past year and recently some wholesale prices have increased. Unfortunately, these undesirable symptoms, could lead to accelerating the rate of increase in costs. Any wage or price hikes would increase the rate of inflation.

The economic security of the United States and the well-being of its people demands that inflation be contained. Prudence will require that care be maintained so that our increased goods and services are not offset by increased prices.

Mr. FINO. Mr. Speaker, I voted in support of this tax cut because our American taxpayers urgently need relief from the heavy burdens of taxation.

I voted for this bill because it would put into the pockets of our individual taxpayers added dollars which could be spent for consumer products.

I voted for this measure because it would add to the coffers of our American corporations more money which could be used for expansion and reinvestment purposes which in turn would create more jobs for the unemployed.

The \$11.4 billion provided in this bill for corporate and individual taxes is to give our economy the added lift it requires.

This tax cut is not to be considered as an invitation to any of the 50 States to increase State and/or local taxes and thereby take away the benefits we are providing the people under this bill.

I hope and trust that all of the 50 States—more particularly my own State of New York—will allow our taxpayers to keep the tax cuts and spend it for their own benefit and use.

Any attempt by any of these States to increase their own State and/or local taxes and thereby remove the tax relief we are providing our people under this measure will certainly defeat the very purpose of this legislation.

If I had any suspicion that my own State of New York would increase taxes and take away what we are doing here today, I would not support this bill.

I want it clearly understood that this is tax relief for the people and not a license for any State to take it away from them by increasing State and/or local taxes.

Mr. SMITH of Iowa. Mr. Speaker, I was one of the few who voted against this tax bill when it was passed by the House last year. Two years ago, I voted for a tax reduction bill and supported revision of depreciation rules that pinpointed tax reduction to investments in jobmaking assets. I support tax reform, tax simplification, and tax reduction as and when necessary to stimulate the economy; however, the conditions under which the bill was passed last year indicated that almost all of the tax reduction would be offset by either an increase in debt or reduction in needed goods and services.

Since this bill passed last year, several significant changes have taken place. The last Congress ended the night before Christmas after reducing the 1964 budget by a total of \$6.8 billion. President Johnson has submitted a new budget that calls for a lower spending ceiling than had been expected and without eliminating those programs that are essential to progress in this country and an expansion of the economy. It has been determined that the buildup in military inventory can level off, and a reduction of several billion dollars in spending has resulted from this change. Some of these cuts, such as closing obsolete military bases, will reduce annual outlays for years to come and do not merely represent a delay in expenditures. The gross national product has taken a leap forward that will increase tax receipts under the new proposed rates beyond those expected last year.

The sum of the changes add up to so much increase in revenues and reduction in spending that it appears the tax cut can now be made without the severe in-

flationary pressures and debt management problems that would have resulted under the conditions of last year. This is especially true in view of the reserve capacity to produce additional goods and services at current prices.

I consider this an experiment in reducing taxes in lieu of some job providing programs, but not in lieu of essential programs still recommended within the framework of the new reduced budget. The bill does not contain nearly as much tax reform as is needed and is woefully short on the tax simplification provisions that are badly needed; however, we must either vote yes or no on the package before us and I do believe that the changed circumstances now result in the favorable arguments outweighing the unfavorable arguments. I am, therefore, going to vote for this bill today.

Mr. QUIE. Mr. Speaker, there are many parts of the tax-cut bill which I would write differently if it were left up to me. Even with the objections, however, I intend to vote in favor of the conference committee report.

When the tax-cut bill was first passed in the House, I joined with many of my colleagues in opposing this measure. But now, the conditions which we set for the tax cut have been met. The major condition is a Federal budget for the fiscal year 1965 below \$98 billion.

Linking of a tax cut with lower Federal expenditures is a time-tested and prudent procedure, long advocated by sound economists. This is shown by the many tax cuts which Republicans have sponsored over the years. I believe that lower Federal spending will make this tax cut meaningful and I hope that the economy of our Nation will actually be stimulated by it.

However, I cannot stress too strongly that Congress now has the duty and responsibility of keeping a sharp and watchful eye on appropriations measures. We should all remember that President Johnson's proposals for spending in the 1965 fiscal year, although below \$98 billion, according to the budget, are still higher than the amount Congress actually appropriated for the current fiscal year.

If Federal spending is not held in line, an inflationary spiral could be set off that would send the cost of living soaring. If this occurred, the meaning of this tax cut would be erased and the economy could actually suffer.

Therefore, it is obvious that we must take not only the actual budget into consideration, but also any possible supplemental appropriations or measures which would grant new obligational authority which may come before us.

We must give this tax cut a chance

to work favorably in the economy. This can be done only by keeping a sharp rein on spending.

Mr. TAFT. Mr. Speaker, I am opposing the conference report on the tax bill today for numerous reasons, some of which relate to the details of the changes proposed in the structure of the law of which I disapprove.

But far more objectionable than these changes in detail, is the entire theory upon which this proposal is based. In a time of almost unparalleled prosperity, and when we are already operating \$10 billion in the red, we are taking a step to stimulate incipient inflation into full-blown inflation. The cost of living is daily showing signs of increasing its upward trend and thus recapturing quietly and cruelly from those who can least afford it, any benefit of the tax cut. And let me remind that inflation does not mean prosperity. It is more likely in the long run to mean the opposite since it cuts into consumer purchasing power.

A few of us, at least, must continue to ask whether, if this is the time for a tax cut, what time will not be right for one? If our economy continues to prosper, perhaps we may get away with this additional swig on the bottle. But let us ask what course we would follow if our economy should fail to react as has been suggested, and we lose confidence and slip into recession. If the optimistic estimates of increased revenue then fail to materialize, what nostrum will then be prescribed? If we face a \$20 billion deficit, will it be more of the same, or will we then retreat and reimpose rates and levies even higher than at present. Like a sound military plan, a sound economic plan must take into account all of the enemy possibilities and capabilities.

With our economy expanding, with a leveling off of Federal spending possible without hurting our position at home or abroad, today we have a God-given opportunity to put this country back into the black. We would then be in a position to react with all weapons available to any economic dangers that may threaten. By the adoption of this measure we shall lose that flexibility and leave ourselves chained to a position from which we cannot escape, even if the perils of inflation and of recession threaten. Many, many Americans in their wisdom have sensed this, and in spite of the immediate attraction of reduced taxes, have called for an end to our deficits and for reduced spending before a tax cut. But the siren song has carried away this administration and this Congress. The road we choose with this bill is one from which there

[P. 3449]

may well be no outlet. We can only hope that its enactment, which seems a foregone matter, will be followed by the strictest economy, not merely in pennies saved by bulb snatching and depot closing where the squawk will be loud, but in many billions. Unfortunately, the administration's spending proposals show no such intent. We can only warn that any other course is fraught with danger can be dramatized by asking the unanswered question of the tax debate—"If we have a tax cut now but we have a deficit of \$20 billion in fiscal 1965 or fiscal 1966, what then should be our tax policy?"

Mr. CHAMBERLAIN. Mr. Speaker, as we approach a decision on agreeing to the conference report with respect to the Revenue Act of 1964, I would like to include in the RECORD a brief statement regarding my position relating to this measure.

Last September when the House was first considering the tax reduction bill the chief question raised in debate on both sides of the aisle was whether the House of Representatives, the constitutionally appointed custodian of the Treasury, would accept the administration's novel fiscal theory of planned unbalanced budgets and would vote to approve a tax cut to be financed by borrowed money. In principle the House rejected that theory and called upon the administration to reduce not increase the public debt and to balance the budget as soon as possible. This declaration of congressional intent, however, it was readily admitted, was more a pious hope than an effective means of expenditure control. And for that reason, without any real safeguards to insure fiscal responsibility, I voted against the tax bill at that time.

Today, while much has happened since last September, this same question remains the fundamental issue at stake with respect to the tax bill. Just how pious was the hope that the administration would change its ways is demonstrated by the fact that the other body just last month deleted the declaration of congressional intent calling for expenditure control and it was only through the insistence of the House managers in conference that it remains in the final bill. It is highly problematical that it will exercise much influence upon the administration.

In January, of course, President Johnson told us that fiscal 1965 would see spending kept at 1964 levels and the budget deficit would be cut in half. But it became immediately apparent that this was to be accomplished in large

measure by letting the 1964 budget help pay for the 1965 spending; and we have seen spending in the final quarters of 1964 increased by some \$600 million with the budget deficit increased by another \$2 or \$3 billion. Thus, I am not convinced that there has been a basic change in the administration's policy of deficit spending. In fact, the 1965 budget, as we all know, calls for yet another increase in the Federal debt ceiling, the seventh in 4 years and this during a time free from economic depressions or recessions. This is not to deny that the administration has not recently sought to make certain spending cuts and I will always applaud any President who seeks to eliminate waste and inefficiency. However, the administration has yet to attack the greatest single example of waste in the annual budget, the \$10 billion that we have to spend to pay the yearly interest on the debt.

I adhere to the fiscal theory that I believe the great majority of the American public hold which says that if we are to have a tax cut we should be willing to accept the responsibility for paying for it ourselves through a reduction in Federal expenditures. We should not tax our children and ourselves in later years to pay for this perhaps only temporary relief. We should not adopt a policy that obligates the earnings of future generations without their consent and one that in one hand gives a tax break while the other hand borrows it right back, for to do so is both fiscally and morally wrong.

Beyond this, Mr. Speaker, I have yet another reason for opposing this legislation. We are told this bill will reduce Federal taxes by some \$11½ billion. The basic premise underlying this reduction is to provide a stimulus for our economy and ultimately to produce even greater revenues. But, I cannot in good conscience support legislation that reduces taxes by \$11½ billion and fails to give any consideration whatsoever to a reduction of the discriminatory excise tax on automobiles that we have been extending year after year for the past 12 years.

To me, this whole thing does not ring true—we profess to be concerned about stimulating the economy but we cannot give one red cent of an \$11 billion reduction to the largest single segment of that economy. Is it consistent for us to continue a tax that discriminates against an industry that employs one person out of every seven, that accounts for one retail dollar out of every five spent, and that involves one business out of every six in our country?

So, Mr. Speaker, until this House indicates some concern for correcting this

gross tax inequity, as well as many other excise tax inequities, I cannot lend my voice in support of action such as we are taking today.

While I realize the taxpayers of this country desperately need relief from our stifling tax system, for the two basic reasons I have recited, I cannot support the conference report.

Mr. LATTA. Mr. Speaker, I plan to support the conference report on H.R. 8363, the Revenue Act of 1964, even though I am not completely satisfied with all of the provisions of the bill. However, I believe that taxes are too high and that they should be reduced. I am disappointed that the conference report did not assume the difficult task of tax reform and confined itself primarily to tax reduction. I am also disappointed that only negligible reductions were made in the middle-income group and that such sizable reductions were made in the higher brackets.

Mr. Speaker, I did not support H.R. 8363 when it was first before the House for the reason that the House failed to adopt a Republican motion to recommit with instructions to hold expenditures for fiscal 1964 to \$97 billion and to hold expenditures to \$98 billion in fiscal 1965. Since this bill was before the House, the Congress succeeded in cutting more than \$6 billion from the budget for fiscal 1964. The present administration has submitted a budget for fiscal 1965 calling for expenditures of \$97.9 billion. Since the administration budget calls for expenditures of \$0.1 billion less than the \$98 billion proposed in our motion to recommit, I expect to support the conference report and to vote against every request by the administration to exceed its own \$97.9 billion budget.

Mr. DONOHUE. Mr. Speaker, I most earnestly hope this House will overwhelmingly approve the conference report just presented to us on the Tax Revenue Act of 1964, H.R. 8363.

As the distinguished chairman of our Ways and Means Committee has indicated, the approval of this report may well be the most historically significant legislative action of modern times.

In summary, the basic objectives embodied in this tax revenue report are to encourage the long-term, economic growth of the Nation, to restrain the tendencies of dangerously increasing unemployment, to restrict the historically recurrent forces of recession, to contribute to the balancing of our international payments and eventually to eliminate the disruptive pattern of chronic budgetary deficits.

Certainly these are admittedly aims in the national interest and it is just as certain that the provisions of this report

project a reasonable prospect of achieving these aims.

There is no doubt, as the economic history of our own and other countries reveal, that tax reduction does tend to spur the economy, stimulate capital investment, and relieve unemployment.

From the basic human standpoint, the major beneficiary of this measure will be the family of the currently unemployed person who is returned to gainful work. On this score alone, the bill is meritorious and worthy of your favorable consideration. Of course, this is not the perfect tax reduction and reform measure that most of us would like and, undoubtedly, it may, in its operation, reveal that some things not in the bill should have been added and some things in the bill should have been taken out. But, this is the story of all human legislative efforts and appropriate corrective amendments may be adopted as time goes on. Even though there are changes and additions which a great many of us would like to see today, we must ask ourselves if, for one or two personal convictions, we are justified in withholding approval of a measure that promises so many overall benefits to the majority of the people and businesses of this country? I think our conscientious answer must be that we should approve the bill, now, and more especially when we have in the language of the bill itself, as well as in the statement of the President a pledge to determinedly pursue substantial reductions in all governmental ex-

[P. 3450]

penditures from here on. The efficacy of this tax bill and the economic stability of the Nation will rest upon the fulfillment of the President's pledge and the congressional promise in the measure to prudently restrict Government spending. I personally believe the President and the Congress will cooperate to fully redeem such a pledge. On this particular phase of the matter, we might do well to remember that, after all, the executive department cannot spend more than the Congress gives to it.

Let us further remember that our own taxpayers, through the Congress, have been truly generous, for many years, to the people of other nations all over the world. Let us then seize this opportunity to demonstrate concern for our own too long and too heavily burdened citizens and businesses. For our present and future welfare, let us approve this measure of tax reduction, now, while we continue to perseveringly work, in accord with changing economic circumstances, for a more just and equitable tax structure and system for all segments of our American society.

Mr. PHILBIN. Mr. Speaker, first, I must heartily commend and thank the very able, distinguished gentleman from Arkansas, whom we all greatly esteem, and his very fine, able committee for their outstanding work on this bill.

From my standpoint, the bill, as it is here presented to us, is by no means a complete or perfect legislative measure. I would much prefer to see an overall overhaul and revision of the entire tax system, monumental as such a job would be, because it is necessary to banish archaic forms, palpable inequities and injustices, and to adapt our taxing mechanisms and procedures to our modern business, economic, and social systems.

I should prefer to see a much broader and deeper approach to specific tax reductions and exemptions for ordinary people, although I full realize the serious problems and difficulties involved.

I should have liked more consideration in the bill for substantial incentives for initiative and enterprise—the great nourishing dynamic forces of our powerful economy—but well understand the limitations on the committee and the House at this time of high budgets, in inaugurating such measures, even though they must be taken very soon to preserve our great, productive system and the high living standards of the American people.

This bill is a long step in the right direction, a move toward a more equitable tax system and a definite, needed spur to the economy.

As the chairman well says, it is a better bill than that passed by the House and a better bill than that passed by the other body. Though it has shortcomings and does not always deal justly with certain classes of taxpayers, nevertheless, its benefits are real, substantial, immediate, and projected, and should bring many of the favorable results we expect, for individuals, business people, and the economy.

For a long while, I have been urging tax overhaul and tax reduction to stabilize, encourage, and promote business and stimulate employment and prosperity and eliminate glaring injustices and discriminations against the rank and file of the people that have been causing hardship and lowering the living standards of millions of Americans.

This free, private enterprise system can survive many things, as it has demonstrated. But it cannot survive excessive, oppressive, confiscatory taxes which destroy incentive, paralyze initiative, and dry up the lifegiving springs of free enterprise itself.

At the outset of the Kennedy administration, I urged our late, cherished, beloved friend, our great President Ken-

nedy, to initiate a general tax relief and tax revision measure that would accomplish the ends I had in mind.

It seemed to me at that time that while many of the economic indicators pointed to continued favorable business, it was quite evident from the pockets of unemployment and pools of depressed areas in certain parts of the Nation that there was a strong need for the kind of stimulus tax reduction would provide.

In addition, I have been strongly persuaded over a period of time that we were becoming a tax-ridden nation.

The Federal budget has risen to new and very high levels. In the past 10 years, the Federal debt has gone up 13 percent and the debt of States and cities has increased 448 percent. This has caused an upward pressure on taxes across the board and everyone is feeling the pinch of heavier tax levies.

I was delighted when President Kennedy strongly recommended a tax bill that would provide some relief and some measure of revision and we are, therefore, voting today on the bill which has developed from his recommendations and from the laborious efforts of our great House Ways and Means Committee and the Senate Finance Committee.

In a very real sense, this is the fulfillment of President Kennedy's recommendations and fond wish. *A. J. F.*

I am glad that we are going to have a tax bill and welcome the opportunity to vote for this conference report, even though I would personally prefer a somewhat different kind of bill. I regard this bill as a step forward toward the greater goal of a totally revised tax system—a system that would more equitably apportion the tax burdens on those best fitted to bear them and with fairness and justice to all groups in our society.

Mr. ALGER. Mr. Speaker, the tax bill affects every taxpayer, directly or indirectly. Taxpayers are affected directly by the rate and structure changes. Taxpayers and nontaxpayers, that is, everyone, are affected indirectly by inflation, the watering of the value of our money caused by the deficit financing which most surely will result from this tax cut.

The compromise of the conference report does not improve the House tax bill, nor does it move in the direction of solving the five announced objectives: First, increase economic growth; second, relieve unemployment; third, free-up investment capital; fourth, increase consumer purchasing power; and, fifth, simplify the tax law. The law is vastly complicated by this bill, and the first four objectives are defeated by the results of the deficit financing which is forced by this tax cut.

Further, I join with the gentleman

from Missouri in his views as expressed in opposition to this conference report.

For my part I shall continue to strive for expenditure control, a balanced budget, and the surplus which alone can make possible a wholesome tax cut, one which we have earned. For my part, I would hesitate to approve a tax cut without some payment against the Federal debt at the same time.

The present course of deficit financing, increasing Federal expenditure, lack of expenditure control is to me, the course of fiscal suicide for private enterprise, for capitalism, and our leadership in world affairs.

Mr. OSMERS. Mr. Speaker, the tax reduction bill conference report will have my reluctant support.

The pending bill is a step in the right direction, but it fails to provide long overdue relief for many who need and should have it. Many reforms are also sadly missing.

Unless the many promises of economy are kept, inflation is likely to dissipate many of the bill's benefits.

Homeowners, working mothers, commuters, parents of college students, stockholders, and others with special tax problems have been almost completely ignored in this bill.

The bill fails to provide for the commuter who is faced with increasing costs of getting to and from work, for parents who are trying to give their children a college education, and for the homeowner who is usually overburdened by State and local taxation. Nor does the pending bill provide tax relief for working mothers who sorely need it.

We also continue to penalize those who create jobs by investing in American business. *A. J. F.*

Mr. Speaker, it was my hope that some of the provisions of bills introduced by me in the past might have been included. For example, it seems that we should grant at least a \$900 exemption a year for tuition expenses for parents with children in college.

An increase in the dependent allowance for working mothers from the present maximum of \$600 to 50 percent of her adjusted gross income, but not to exceed \$2,500, seems in order.

A sensible annual deduction for depreciation on a home and an exemption of up to \$500 for actual commuting costs would give relief to a hard-pressed cross section of our population.

It was a great mistake for the Senate to eliminate the modest cut of \$200 million in our high capital gains taxes, which we had in the House bill.

The decrease in tax credit on corporation dividends from the existing 4 per-

cent to 2 percent in 1964 and elimination thereafter was most unwise. A 50-

The dividend tax credit should be increased, not decreased if it is to be changed. The pending bill's provisions in this respect actually increase the heavy burden on the free enterprise system.

[P. 3451]

If we really mean to reform our tax structure, why should we continue wartime excise taxes on jewelry, furs, cosmetics, luggage, motor vehicles, appliances, electric light bulbs, and tubes, photographic equipment, pens, and mechanical pencils?

These excise taxes were designed mainly to curtail production during World War II and not to raise revenue. They unfairly punish certain businesses and consumers without materially adding to our total tax revenue.

Why should we continue to tax admissions to concerts, operas, theaters, motion pictures, and cabaret checks?

Why should we not also repeal taxes on necessary communications and transportation?

Mr. Speaker, it is my hope that the Committee on Ways and Means will meet soon and face up to this unfinished business.

Another tax area that needs early attention is discrimination by States in levying income taxes on nonresidents.

We should also consider greater exemptions for actual medical and drug expenses and for those with blind and handicapped dependents as well as for some portion of life and hospitalization insurance premiums. At least a small amount of the interest received by a taxpayer on a savings account should also be tax deductible.

A step in the right direction has been made. Let us get on with the job of giving relief to businesses and individuals who have been unfairly treated taxwise for too long a time.

Mr. PATMAN. Mr. Speaker, I have received a number of comments about my statement of February 17 on the President's program for war on poverty.

I had indicated that "under our graduated income tax system, which I think is a fine system, one of the greatest systems of taxation any nation on earth has ever devised"—money that is spent in the low-income groups and the poverty stricken would increase.

Some readers interpreted that statement to mean that I was endorsing the present tax program in its entirety—a statement that I hasten to correct. The principle of a graduated income tax is what I was talking about. In concept,

there is nothing finer. There are features of our existing income tax system, however, which could be made more democratic. For one thing, there are too many loopholes that permit the very wealthy to escape taxation whereas the poor man has to pay up every dime. This has been brought out in my foundation studies which revealed some shocking instances of tax avoidance by very wealthy people who have access to the cleverest legal assistance.

Also; the tax reduction in this conference report gives upper-income groups more relief than the poor, who need it most.

OFFICIAL PICTURE OF HOUSE OF REPRESENTATIVES

The SPEAKER. The Chair desires to call to the attention of the Members that the official picture authorized by House Resolution 552 will be taken immediately after the vote on the pending conference report.

Mr. MILLS. Mr. Speaker, I move the previous question on the conference report.

The previous question was ordered.

The SPEAKER. The question is on agreeing to the conference report.

Mr. MILLS. Mr. Speaker, I ask for the yeas and nays.

The yeas and nays were ordered.

The question was taken; and there were—yeas 326, nays 83, not voting 23, as follows:

[Roll No. 43]

YEAS—326

Abele	Buckley	Duncan
Adair	Burke	Dwyer
Addabbo	Burkhalter	Edmondson
Albert	Burton, Calif.	Edwards
Andrews,	Burton, Utah	Elliott
N. Dak.	Byrne, Pa.	Ellsworth
Arends	Byrnes, Wis.	Everett
Ashley	Cahill	Evins
Ashmore	Cameron	Fallon
Aspinall	Canon	Farbstein
Auchincloss	Carey	Fascell
Avery	Casey	Feighan
Ayres	Celler	Finnegan
Barrett	Chenoweth	Fino
Barry	Clark	Flood
Bass	Clausen,	Flynt
Bates	Don H.	Fogarty
Battin	Cleveland	Foreman
Beckworth	Cohelan	Fountain
Bell	Collier	Fraser
Bennett, Fla.	Conte	Frelinghuysen
Bennett, Mich.	Cooley	Friedel
Betts	Corbett	Fulton, Pa.
Blatnik	Corman	Fulton, Tenn.
Boggs	Cramer	Fuqua
Boland	Curtin	Garmatz
Bolling	Daddario	G'aimo
Bolton,	Daniels	Gibbons
Frances P.	Davis, Ga.	Gilbert
Bolton,	Dawson	Gill
Oliver P.	Delaney	Glenn
Bonner	Dent	Gonzalez
Bow	Denton	Goodell
Brademas	Derounian	Grabowski
Brooks	Diggs	Grant
Bretzman	Donohue	Gray
Brown, Calif.	Dorn	Green, Oreg.
Broyhill, N.C.	Downing	Griffiths
Broyhill, Va.	Dulski	Grover

Gurney	Madden	Rooney, Pa.
Hagan, Ga.	Martin, Mass.	Rosenthal
Hagen, Calif.	Mathias	Rostenkowski
Halleck	Matsunaga	Roush
Halpern	Matthews	Roybal
Hanna	Meador	Ryan Mich.
Hansen	Miller, Calif.	Ryan, N.Y.
Harding	Miller, N.Y.	St. George
Hardy	Milliken	St Germain
Harris	Mills	St. Onge
Harrison	Minish	Saylor
Harsha	Monagan	Schenck
Harvey, Ind.	Montoya	Schneebell
Hawkins	Moore	Schweiker
Hays	Moorhead	Scott
Healey	Morgan	Secrest
Hébert	Morris	Shipley
Hechler	Morrison	Short
Hemphill	Morse	Shriver
Henderson	Morton	Sibal
Herlong	Mosher	Sickles
Hollifield	Moss	Siler
Holland	Multer	Sisk
Horan	Murphy, Ill.	Slack
Horton	Murphy, N.Y.	Smith, Calif.
Hosmer	Natcher	Smith, Iowa
Huddleston	Nedzi	Snyder
Hull	Nelsen	Springer
Ichord	Nix	Staebler
Jarman	O'Brien, N.Y.	Stafford
Jennings	O'Hara, Ill.	Staggers
Joelson	O'Hara, Mich.	Steed
Johnson, Calif.	O'Konski	Stephens
Johnson, Pa.	Olsen Mont.	Stinson
Johnson, Wis.	Olson, Minn.	Stratton
Jonas	O'Neill	Stubblefield
Jones, Ala.	Osmers	Sullivan
Jones, Mo.	Ostertag	Talcott
Karsten	Patman	Taylor
Karth	Patten	Thomas
Kastenmeier	Pelly	Thompson, La.
Kee	Pepper	Thompson, N.J.
Keogh	Perkins	Thompson, Tex.
Kilgore	Philbin	Toll
King, Calif.	Pickle	Tollefson
King, N.Y.	Pike	Trimble
Kirwan	Pillion	Tupper
Kluczynski	Pirnie	Tuten
Knox	Poff	Udall
Kornegay	Pool	Ullman
Kuchel	Powell	Van Deerlin
Kyl	Price	Vanik
Landrum	Pucinski	Van Pelt
Langen	Purcell	Vinson
Lankford	Quie	Waggonner
Latta	Rains	Wallhauser
Leggett	Randall	Watson
Lennon	Reid, N.Y.	Watts
Lesinski	Reuss	Weaver
Libonati	Rhodes, Pa.	Weltner
Lindsay	Rich	Westland
Long, La.	Rielhman	White
Long, Md.	Rivers, Alaska	Whitener
McCulloch	Rivers, S.C.	Wickersham
McDade	Roberts, Tex.	Widnall
McDowell	Robison	Williams
McFall	Rodino	Willis
McIntire	Rogers Colo.	Wilson, Ind.
McMillan	Rogers, Fla.	Wydler
Macdonald	Rogers, Tex.	Young
MacGregor	Rooney, N.Y.	Zablocki

Abbitt	Fisher	Minshall
Abernethy	Ford	Norblad
Alger	Gary	Passman
Anderson	Gathings	Pilcher
Andrews, Ala.	Goodling	Quillen
Ashbrook	Griffin	Reid, Ill.
Baldwin	Gross	Reifel
Baring	Gubser	Roudebush
Becker	Haley	Rumsfeld
Beermann	Hall	Schadeberg
Belcher	Harvey, Mich.	Schwengel
Berry	Heaven	Selden
Bray	Hoffman	Sikes
Brock	Hutchinson	Skubitz
Bromwell	Jensen	Smith, Va.
Bruce	Johansen	Taft
Cederberg	Keith	Teague, Calif.
Chamberlain	Kilburn	Teague, Tex.
Clancy	Laird	Thomson, Wis.
Clawson, Del	Lipscomb	Tuck
Colmer	Lloyd	Utt
Cunningham	McClory	Wharton
Curtis	McLoskey	Whitten
Dague	Mahon	Wilson Bob
Derwinski	Marsh	Winstead
Devine	Martin, Nebr.	Wyman
Dole	May	Younger
Findley	Michel	

NOT VOTING—23

Broomfield	Gallagher	Roberts, Ala.
Brown, Ohio	Kelly	Roosevelt
Burleson	Mailliard	Senner
Chelf	Martin, Calif.	Sheppard
Davis, Tenn.	Murray	Whalley
Dingell	O'Brien, Ill.	Wilson,
Dowdy	Poage	Charles H.
Forrester	Rhodes, Ariz.	Wright

So the conference report was agreed to.

The Clerk announced the following pairs:

Mr. Burleson with Mr. Mailliard.
 Mr. Roberts of Alabama with Mr. Rhodes of Arizona.
 Mr. Roosevelt with Mr. Brown of Ohio.
 Mr. Dowdy with Mr. Broomfield.
 Mr. Chelf with Mr. Whalley.
 Mrs. Kelly with Mr. Martin of California.
 Mr. Senner with Mr. O'Brien of Illinois.
 Mr. Dingell with Mr. Davis of Tennessee.
 Mr. Gallagher with Mr. Sheppard.
 Mr. Wright with Mr. Forrester.
 Mr. Charles H. Wilson with Mr. Murray.

The result of the vote was announced as above recorded.

A motion to reconsider was laid on the table.

SECTION 26

SENATE FLOOR DEBATE ON CONFERENCE REPORT
(From the Daily Congressional Record)

4201

[February 25, 1964]

[P. 3391]

MESSAGE FROM THE HOUSE

A message from the House of Representatives, by Mr. Bartlett, one of its reading clerks, announced that the House had agreed to the report of the committee of conference on the disagreeing votes of the two Houses on the amendments of the Senate to the bill (H.R. 4638) to promote the orderly transfer of the executive power in connection with the expiration of the term of office of a President and the inauguration of a new President.

The message also announced that the House had agreed to the report of the committee of conference on the disagreeing votes of the two Houses on the amendments of the Senate to the bill (H.R. 8363) to amend the Internal Revenue Code of 1954 to reduce individual and corporate income taxes, to make certain structural changes with respect to the income tax, and for other purposes.

[P. 3397]

REVENUE ACT OF 1964—CONFERENCE REPORT

Mr. LONG of Louisiana. Mr. President, I submit a report of the committee of conference on the disagreeing votes of the two Houses on the amendments of the Senate to the bill (H.R. 8363) to amend the Internal Revenue Code of 1954 to reduce individual and corporate income taxes, to make certain structural changes with respect to the income tax, and for other purposes. I ask unanimous consent for the present consideration of the report.

The PRESIDING OFFICER. The report will be read for the information of the Senate.

The legislative clerk read the report.

(For conference report, see House proceedings of February 24, 1964, pp. 3234-3238, CONGRESSIONAL RECORD.)

The PRESIDING OFFICER. Is there objection to the present consideration of the report?

There being no objection, the Senate proceeded to consider the report.

The PRESIDING OFFICER. The question is on agreeing to the conference report.

Mr. LONG of Louisiana. Mr. President, it was on last January 30, less than a month ago when the Senate first began consideration of the bill which we bring back from conference today for what I hope will be its final consideration by this body.

Legislation of this type is necessarily

technical and complex. I believe that its consideration by the Senate; then action on it by the conferees—ironing out the differences between the House and the Senate—and finally action on the conference report by both Houses of Congress, all in less than 1 month is an accomplishment and one which should not pass unnoted.

It has been possible to complete this action on the Revenue Act of 1964 with such dispatch because of the careful consideration this bill has been given, both by the other body and by the Senate Finance Committee before it came to the floor of the Senate. I would like to note especially the constructive attitude taken with respect to this bill by our chairman, the distinguished senior Senator from Virginia. Although he has indicated quite clearly that he is not in sympathy with this legislation, he has nevertheless handled the legislation, both in the hearings on it before the Finance Committee and in the committee's executive sessions on the bill, in a most constructive manner. At all times he has taken the attitude that the different points of view should have a full opportunity for expression, but at the same time he has always pressed for action on the bill even after these views were expressed. I have only true admiration for the constructive manner in which he has handled this bill.

I have already said to the press, and would like to say again, here, that in my opinion this has been a most satisfactory conference. I believe that the bill that we bring to the Senate from conference is better than either the House or Senate versions of the bill. I believe that conferees had selected the best from each and rejected the bad of each. I do not mean by this that in all respects the conference agreement is as I personally would have it. I have seldom seen the time when that would be true of a conference agreement, especially in a bill as large and as complex as this one. Nevertheless, I feel that the action of the conferees was constructive, and that we bring to you even a better bill than the one we took to conference.

This legislation is, I believe, an historic landmark. It not only provides the largest tax reduction in our history, but it has been generally recognized in the debate on this bill that this is a tax reduction which in the long run—both through increasing consumer purchasing power and through stimulating investment—can be expected to raise the level of economic growth in this country, thereby increasing the Government's revenues above the level they would otherwise achieve.

Probably more important, however, this bill, although it certainly will not eliminate unemployment, can nevertheless be expected to aid substantially in reducing unemployment and also increase the likelihood of other more specific measures becoming effective.

This improvement in employment brought about by this bill arises from its double effect—both making funds available for increased consumer expenditures and also through improving the likelihood of a more profitable return on investment. These factors are necessary if we are to achieve a higher rate of growth for our economy as a whole.

Perhaps the most unique aspect of the bill is that it reinforces our private enterprise system. By reducing the level of individual and corporate taxation we are giving the free enterprise segment of our society an opportunity to take up the slack which many of us believe has arisen in our economy because our tax system has in large part up to this time still been geared for a wartime, rather than a peacetime, economy. By this action we are giving the private enterprise sector of our economy the opportunity to provide the growth we need in the years ahead to improve our competitive situation abroad, to offset at least in part the increasing unemployment that we face, and to provide for a better and more prosperous America for all of us.

I do not, of course, believe that this bill will accomplish this result alone but I do believe that it is an important step in this direction.

Much has been said as to tax reforms which are not in this bill; tax reforms which were proposed by the administration or tax reforms which individual Members of this body have urged upon all of us. This bill does not accomplish all of the tax reform that is needed in our revenue system.

However, I think it is easy to underemphasize the importance of the tax reform which is included in this bill. I believe that in terms of substantive reform of our tax laws, the changes made in the Revenue Act of 1962 and in this Revenue Act of 1964, taken together, clearly represent the most substantial reform of our tax laws at least since 1942, if not for a much longer period of time. Undoubtedly there is much yet to do and we will certainly be faced with tax reform issues for many years to come. Nevertheless, this bill will also go down as a landmark in the reform in our tax laws and its importance in this respect has been greatly misunderstood.

I would like to review now the revenue

implications of the actions taken by your conferees. The calendar year 1965 liability—which, for the most part, represents the full year liability—would under the bill as passed by the Senate have resulted in a \$11.9 billion reduction as contrasted to a reduction of \$11.2 billion under the House version of the bill. The bill that we bring back from conference is expected to result in a revenue loss in the calendar year 1965 of slightly less than \$11.5 billion, or more specifically, \$11.48 billion. Thus, the ac-

[P. 3398]

tion taken by the conferees reduces the revenue loss in the calendar year 1965 by \$375 million. In the long run, this saving is expected to be \$405 million.

In terms of fiscal year receipts this bill, before any stimulative effect, is expected to result in a revenue reduction in the fiscal year 1964 of \$1.6 billion, which is the same as the version which passed the Senate. However, in the fiscal year 1965 the conference agreement is expected to result in a revenue reduction from present law of \$8.5 billion, or \$425 million less than the version which passed the Senate. This is without regard to the stimulative effect which the Treasury Department assures us this bill will have and which they have estimated in the fiscal year 1964 to be \$200 million and in fiscal year 1965 to be about \$4 billion. In other words, the Treasury Department anticipates that this bill in these 2 fiscal years will have an impact on the budget of only \$1.4 billion in the fiscal year 1964 and \$4.5 billion in the fiscal year 1965.

Mr. GORE. Mr. President, the Senate is not in order. There are at least a half dozen attachés of the Senate talking in front of the desk. One Senator is trying to speak against six attachés.

The PRESIDING OFFICER. The Senate will be in order.

Mr. GORE. When the Chair does not enforce the rules of the Senate, it is a losing game.

The PRESIDING OFFICER. The Senate will be in order.

Mr. LONG of Louisiana. I thank the Senator.

Let me turn now to the specific conference action on the amendments as agreed to by the Senate. The great bulk of the Senate amendments were agreed to by the conferees. Of course, many of these were in the nature of technical, perfecting amendments, but in addition I think it is clear that even in terms of substantive amendments the bulk of those made by the Senate were approved by the conference action. For the most part, I will not refer to these

amendments which have been approved by the conference action but rather to the amendments where either some compromise was reached or the Senate amendments were deleted.

Probably the most important Senate amendment, and one on which I am happy to report we were able to retain the essential feature of the Senate action is that dealing with capital gains and losses. This is the amendment on which the Finance Committee action was specifically confirmed by a vote on the Senate floor of 56 to 25.

The House conferees agreed to the Senate action which deleted from the House bill the special 40-percent inclusion factor for capital gains where the asset has been held 2 years or more and the special alternative rate of 21 percent for these gains. As a result, capital gains, where the assets have been held 6 months or more, will all continue to be subject to the 50-percent inclusion factor required by present law and will continue to be subject to the alternative tax rate of 25 percent. It will be recalled that in the debate on this subject, both I and several other Senators pointed out that the present capital gains rates accounted for the fact that the effective rates applicable to many persons with very large incomes are close to 25 percent. It will also be recalled that I presented the Senate with information showing that the tax benefits from the capital gains tax reductions would go largely to those with the very highest incomes and would have the effect of bringing down the effective rates of tax on many of these persons below 20 percent. We presented this same material to the House conferees and they recognized the merit of our position and agreed to the deletion of the provision.

The Senate conferees did, however, agree to retain one feature of the House bill relating to capital gains and losses; namely, the unlimited carryover of capital losses. This is a matter which was not given much attention in the Senate at the time the basic capital gains provision was discussed. Under present law a capital loss is first offset against capital gains, and then to the extent of any remaining loss, it may be offset against ordinary income up to \$1,000. Any loss still remaining may be carried forward and that same procedure repeated in each of the next 5 years. The House provision, which the conferees have accepted, provides for the indefinite extension of this capital loss carryover rather than limiting it to the 5-year period.

The House provision retains, however, the limitation of \$1,000 as the maximum

amount which may be offset against ordinary income in any 1 year. This provision has been urged by the House on the grounds that it encourages risk-taking and in that manner will encourage the growth of new industries.

Another Senate floor amendment which was considered at length in the conference is that relating to the exclusion for income earned abroad. The House conferees felt that this had not been a subject matter of the hearings on the House side, or before the Senate Finance Committee, and for that reason they were most reluctant to make any modifications in this provision. Moreover, the House conferees pointed out that this matter had been specifically dealt with in the 1962 legislation and that it was as a result of that legislation that the present maximum amounts were placed on the exclusion applicable in the case of bona fide residents of foreign countries. For these reasons we found it difficult to obtain any compromise in this area from the House conferees.

We have been able, however, to bring back to the Senate some reduction in the exclusion for income earned abroad in the case of bona fide residents of foreign countries who are there for more than 3 years. Under present law these persons receive an exclusion of \$35,000. Under the conference action this has been reduced to \$25,000 effective for the calendar year 1965. There was a strong feeling on the part of the House conferees that if we wish to stimulate exports and sales of American products abroad it was important to have Americans in key business positions abroad and that the exclusion provided in the existing law was an important factor in this regard.

I am glad to report that we were successful in prevailing upon the House conferees to accept the Ribicoff retirement income credit provision which provides a supplementary credit where the wife either is not eligible for a retirement credit under existing law or is eligible for only a reduced credit. Although some modification was made by the conferees in this regard, the agreement worked out accomplishes all that I believe the Senator from Connecticut desired. The modifications, in fact, meet some problems I think we would have had if we had kept the original provision.

Let me now turn to the group term life insurance provision. Senators will recall that under the Senate version this insurance would have taxed in the case of protection provided by, or through, an employer in excess of \$70,000. The House version on the other hand would have taxed insurance protection above \$30,000. This was compromised by the House and your conferees at \$50,000.

In providing for the inclusion of group term insurance to the extent specified in the taxpayer's income, the conferees wanted to make it clear that this insurance does not include death benefits in so-called travel insurance or accident and health policies where such policies do not provide general death benefits. In addition, the conferees are instructing the Treasury Department to study the table of premiums at attained ages contained in the House and Senate committee reports on the bill to see whether this table should not be replaced by a table which reflects the most recent mortality experience and which may possibly make some allowance for expense factors.

In the case of the sick pay exclusion, or wage continuation payment, your conferees retained most of the McCarthy amendment which was adopted here on the Senate floor. Under the House bill the exclusion for sick pay was limited to those cases where the individual was absent from work for 30 days or more and was available only with respect to up to \$100 received after the 30-day absence from work. The McCarthy amendment would also make the sick pay exclusion available in certain cases during the first 30 days. Under the amendment the sick pay exclusion would be available in this period where the wage continuation payment is not more than 75 percent of regular average weekly pay of the individual. The conferees accepted this provision but modified it to provide that within the first 30 days the sick pay exclusion will be available for only the first \$75 of income. In addition, it was made clear that it would be available only after a 7-day waiting period unless the individual is hospitalized, not only in the case of illnesses but in the case of accidents as well.

Another amendment on which a compromise was reached between the different House and Senate versions is that dealing with the deductibility of State and local taxes. The House bill would have provided that State taxes are to be deductible only in the case of income, property and general sales taxes. The

[P. 3399]

Senate, in addition, would have allowed deductions for gasoline taxes and auto tag and driver's license taxes. I believe the senior Senator from Virginia, the chairman of our committee, felt especially strongly on the issue of the deductibility of gasoline taxes. This matter was compromised by continuing the deduction of gasoline taxes but denying the deduction for auto tag and driver's license taxes. This preserves, therefore, \$220 million of deductions for individuals in

the case of these taxes, which under the House version would not have been available.

Another important provision represents an amendment made by the Senator from Tennessee [Mr. GORE] in the Senate Finance Committee to the unlimited charitable contribution deduction. Under this deduction an unlimited charitable contribution deduction is available for those who in 8 of the last 10 years have given 90 percent of their income to charity or paid it in Federal income taxes. The Gore amendment would have denied the unlimited charitable contribution deduction with respect to gifts to private foundations. The Finance Committee felt that in the case of these private foundations the donors frequently were not actually parting with the funds, and frequently that the funds were not, for an extended period of time at least, finding their way into actual charitable uses. Because of this we made the unlimited charitable contribution unavailable unless the organization was one of several specified organizations such as churches, schools or hospitals or alternatively under your committee's action unless the organization was one "which normally receives a substantial part of its support * * * from a governmental unit or from direct or indirect contributions from the general public."

Since the adoption of this provision by the Senate, cases have been called to the attention of many members of the Senate and House where contributions to private foundations which arise from unlimited charitable contributions do find their way, in a relatively short period of time, into actual charitable uses. The Senate version did not take into account, for example, the fact that some private foundations are themselves directly carrying on charitable functions, as distinct from making gifts to other charitable organizations carrying on these charitable functions. In addition, our version of the bill did not take into account the fact that in the case of many of the private foundations the organization either, through activities it carried on itself or through donations it makes to other organizations, is making the contributions available for actual charitable use in a short period of time.

Because of the factors I have referred to, the conferees, although accepting the Senate amendment, modified it to provide for the continued availability of the unlimited charitable contributions deduction in the case of contributions to churches, schools, hospitals and other public-type organizations; and also in the case of two specific types of private foundations. The first of these private

foundations which under the conference agreement will still qualify for contributions by someone claiming the unlimited charitable contribution deduction has been referred to as an operating charity. The type of organization I am referring to here is one which devotes substantially more than half of its assets directly to the active conduct of the exempt charitable activities. It also is one which must devote substantially all of its income to such a purpose. By active conduct, we mean that the organization must itself carry on the activity and not merely be a conduit for transferring the contributions to another organization.

In developing this provision it was recognized organizations such as the Williamsburg development actually still retain a title to the property which they purchased but nevertheless use these assets for the purpose for which the organization was exempt. Moreover, this provision was not intended as a year-by-year test but rather looks to a period of time to determine whether an organization is devoting its assets and income in the manner indicated. Somewhat more leeway is allowed in the case of assets than in the case of income to make allowance for the fact that some of these organizations must necessarily accumulate some of their contributions to build up an endowment fund to enable them to carry on their exempt activities from the income of this fund.

The second exception for the private foundations relates to one which during a 3-year period beginning after the contribution is received expends or uses half of the contributions received from those claiming an unlimited charitable contribution deduction for one of the following four purposes:

First. The active conduct of activities representing its exempt functional purpose—that is, direct operations rather than making grants to other charitable organizations.

Second. Assets directly devoted to such purpose.

Third. Contributions to organizations for which a 30-percent charitable contribution deduction may be claimed under present law or to the type of operating private foundations I have just described.

Fourth. Any combination of these uses.

In determining whether an organization has used 50 percent or more of its contributions for this purpose it is not intended that there be any tracing of the specific contributions. Instead it is assumed that the first amount to be spent, for the activities to which I have referred, is the income of the organiza-

tion for the year in which the contribution is received and in each of the years up to the end of the year in which the contribution is considered to have been used for this specific purpose. The next amount considered as being spent for this purpose are the contributions from those claiming the unlimited charitable contribution deduction.

It is, of course, recognized that in some cases it may be desirable for the organization to retain all of these contributions, and perhaps the income of the organization as well, for a period of more than 3 years. This may arise, for example, where another organization, such as a school, is being asked to match a grant provided by one of these foundations, or perhaps where a survey is required before it is possible to determine the best way in which the funds should be expended. The conferees gave recognition to these needs for retaining the contributions and income beyond the 3-year period by granting to the Secretary of the Treasury permission to allow the retention of the contributions and income for longer periods of time where the organization shows good cause for such a retention. It is not intended that the mere accumulation of the funds to earn income, and in that manner to increase the size of the corpus, would represent a good cause. Where this grant of authority for accumulation beyond the end of the 3-year period is given, the income of the subsequent years must also be expended or used for one of the four purposes I have previously outlined, as well as the income of the year of the contribution and three succeeding years.

It is intended that the donor of the contribution—the individual who is claiming the unlimited charitable contribution—claim the deduction on what might be considered a probationary basis before the organization satisfies all of these conditions. He may claim the deduction tentatively on his return, and then if the organization complies with the law subsequently, the deduction becomes validated by this action. Should the organization not comply with these requirements, the individual's return would have to be revised to disallow the specified amount with respect to the unlimited charitable contribution deduction.

The conferees agreed to the Senate amendment providing a 10-year carry-forward in the case of expropriation losses, but desired to make it clear in this case that the amount of any loss taken into account in determining a foreign expropriation loss is no higher than the taxpayer's adjusted basis for the property in question since the foreign

expropriation loss must arise from a loss described in section 165 of the code or a bad debt described in section 166; in both of these cases the deduction allowed is limited to the adjusted basis of the property in question for purposes of the sale or other disposition of the property.

The House conferees resisted the Neuberger amendment, which would expand the area of application of the child care deduction in present law. The Senate conferees were able, however, to obtain an important concession from the House conferees in this respect, although not attaining the full Senate amendment. The Senate amendment would have made this child care deduction available in the case of working wives, and husbands with incapacitated wives, where the joint income of the two amounts to \$7,000 or less, as contrasted to the income level of \$4,500 or less under existing law. Under the conference agreement the income level will be raised from the \$4,500 of present law to \$6,000. In addition, under the conference agreement the maximum child care deduction where there are two or more dependents involved is to be \$900. Under the Senate version the maximum deduc-

[P. 3400]

tion would have been \$1,000 where three or more dependents are involved.

The Senate bill would have provided a deduction of up to \$50 a year in the case of single persons, or up to \$100 a year in the case of married couples, filing joint returns for political contributions to a candidate or a political committee. The House conferees were unwilling to accept this amendment largely because it was felt that this was a departure from prior practice in this respect, and that a change of this major significance should not be made without a full opportunity for hearings in both the House and the Senate.

For the remaining Senate amendments which were either modified substantially or deleted from the conference bill I would like to summarize the action taken by the conferees: 157-1

First. The Senate bill provided that a "face amount certificate company" was not to be disallowed a deduction on interest paid with respect to face amount certificates under section 265(2) of the code to the extent that the tax exempt obligations acquired do not represent more than 25 percent of the average of the company's total assets. The conferees reduced this percentage to 15 percent. In providing this treatment, it is not intended that interest on the face amounts certificates be denied because of investments in excess of the specified 15-

percent level, if the taxpayer establishes that indebtedness was not "incurred or continued to purchase or carry" these excess obligations. Nor is it intended that any inference with respect to years before the effective date of this provision be drawn from the enactment of this provision.

Second. The Senate conferees accepted the House effective date of August 6, 1963, for the bank loan provision which denies an interest deduction in certain cases in the case of indebtedness incurred to buy life insurance under a plan contemplating the systematic borrowing of part or all of the cash value of the policy. The effective date under the Senate version of the bill was December 31, 1963.

Third. The Senate bill repealed the rule, adopted in 1962, which disallowed a portion of travel expenses for certain business trips which are combined with a vacation. The conferees agreed to this amendment insofar as domestic travel is concerned, but retained present law with respect to the foreign portion of business-vacation trips abroad.

Fourth. The House conferees, with slight modification, agreed to the Senate amendments relating to the stock option provision. However, exception was taken to a statement in the report on this bill of the Senate Committee on Finance to the effect that the use of a general term such as "key employees" is not a sufficient description of those eligible to receive options. The conferees, after having considered the matter, have concluded that the use of the term "key employees" should be considered a sufficient description of the class of employees among whom a board of directors, or other executive committee, of a corporation may select those to whom stock options may be granted. In addition, the bill provides that a qualified stock option plan must be approved by stockholders within a 12-month period before or after its adoption and must provide the aggregate number of shares which may be issued under options and the employees—or class of employees—eligible to receive these options. It is intended that the remaining requirements relating to the terms of options granted under the new provisions may be met in such options. Inconsistencies between the plan and the option should, of course, be removed, but a modification by the board of directors—or other executive committee of the corporation—under a power—express or implied—of the board, or committee, to modify the plan to conform to the requirements of law, will be sufficient. Granting period for the qualified stock options under these circumstances will not be affected by such modifications.

Fifth. The Senate bill contained an amendment which extended installment sales treatment—under which income is reported as the installments are received—to all revolving credit sales of personal property and to time payment charges associated with revolving credit sales. The conferees agreed to a modification of this provision which provides that installment sales are to include revolving credit type plans—and this term is defined—except that the term for this purpose is not to include any accounts which are used by the purchaser primarily as ordinary charge accounts. Regulations issued by the Treasury Department on this subject provide to some extent that revolving credit type plans are to be treated as installment sales. However, these regulations deny installment treatment to the portion of such sales coming under what is known as the “small sale” rule. This provides that if the aggregate sales charged during a billing month to an account under a revolving credit plan do not exceed the required monthly payment, then none of the sales during this billing month are considered to be sales on the installment plan. This amendment eliminates this rule. Instead, if the purchaser uses his account primarily as an ordinary charge account, such an account will not qualify for treatment under the installment method of accounting. One method of determining whether a purchaser is using his account primarily as an ordinary charge account which the Service ought to consider for this purpose to see if it is appropriate would be to determine whether the customer’s aggregate revolving credit purchases during the year of the retailer, for all billing periods in which the account is completely liquidated by the first payment in a subsequent billing period, are more than one-half of his total revolving credit purchases for that year. In such a case, the customer would be considered to have used his account primarily as an ordinary charge account. This determination could, of course, be made by the taxpayer on the basis of a sample of accounts, rather than on the basis of a complete audit of all accounts. *A.S. —/*

Sixth. The House accepted the Senate amendment which provides that the year a taxpayer contests a tax or other liability he is, nevertheless, to be permitted a deduction for the item in the year for which he makes a payment, if this is earlier than the year in which the contest is settled. It is the understanding of the conferees that the new provisions relating to the timing of deductions, in certain cases where asserted liabilities are contested, do not affect the taxable

year in which the taxpayer may deduct items of a nature which are properly accruable in a year before the year of payment.

Seventh. The House version of the bill contained a provision making an interest deduction available for carrying charges separately stated which represent purchases of services. The interest deduction in this case, as in the case of tangible personal property purchases under present law, may not exceed the carrying charge or, if lower, interest computed at 6 percent on the declining balance. The Senate had deleted this provision. The conferees, instead of extending this provision to carrying charges arising from purchases of services generally, extended it to installment payments for educational services, such as those for tuition, fees, and lodging.

Eighth. The House conferees agreed to a series of relatively minor amendments made by the Senate in the personal holding company provision. One modification in the provision, however, was not agreed to by the House conferees, and on this point the Senate conferees accepted the House provision. Senators will recall that certain favorable liquidation treatment is made available under the bill to a corporation which, had the new rules been applied “would have been” a personal holding company in one of 2 prior years. Under the Senate version of the bill, these 2 prior years had to be years ending before December 31, 1963. Therefore, for a calendar year corporation they had to be the years 1961 or 1962. The House version of the bill provides that these 2 years are to be the 2 most recent years ending before the date of enactment of this bill. Since this bill cannot be signed until the end of February or early in March, this means that in the case of a calendar year corporation the 2 years which would be taken into account in the House version of the bill are 1962 and 1963. In addition, the House version of the bill would also include a fiscal year ending on January 31, 1964. The Senate conferees accepted the House version of this date. *A.S. — 2*

Ninth. The House bill provided for an increase in basis where an individual died holding stock of a foreign personal holding company. The increase in the basis of the stock in this case is the estate tax paid which is attributable to unrealized appreciation in the value of this stock. - This aspect of the House bill, although deleted by the Senate, has been restored by the conferees. However, further provisions relating to liquidations of these foreign personal holding companies, together with the provi-

sion for an increase in basis where a decedent has held property distributed in such a liquidation, have been deleted.

[P. 3401]

Tenth. The Senate bill would have provided that any excess foreign tax credit which arises from mineral extraction, because of the percentage depletion allowance under U.S. law, may not be used to offset U.S. tax on income not related to mineral extraction or processing transportation or marketing of primary mineral products. The House conferees refused to accept this provision.

Eleventh. The Senate bill adds a provision which provides special treatment for old employees who are reimbursed for selling expenses and also for reductions in sales price attributable to the fact that they had to sell in a hurry. Under the amendment where these employees sell their old home because their employer moves them to a new location, these selling costs and reductions in sales price, to the extent reimbursed, are treated as proceeds from the sale of the house rather than ordinary income.

As a result, they would not be treated as ordinary income but would, to the extent subject to tax, result in a capital gain. The House conferees refused to accept this provision. They told us that the allowance of the deduction for moving expenses, for transportation of household goods, and so forth, already provided under the House bill for new employees, and employees who were not reimbursed, was adopted in order to place such individuals on the same basis as those who are reimbursed under present law. It was contended that now to permit these amounts relating to the sale of houses to be treated as sales proceeds, rather than compensation, would be giving another benefit to old employees who are reimbursed for which there would be no comparable benefit for others who are less fortunate in that they are not reimbursed, or are new employees. In view of these views, the conferees agreed to delete this provision from the bill.

Twelfth. Although the Senate made no change in the House amendment to section 1551 of the code, I should like to make a statement with respect to the amendment of this section relating to the disallowance of surtax exemptions. Under existing law, if a corporation transfers property other than money directly to a corporation which it controls and the transferee corporation was created for the purpose of acquiring this property, or was not actively engaged in business at the time of this acquisition, the Secretary of the Treasury or his dele-

gate may disallow the \$25,000 surtax exemption or the \$100,000 accumulative earnings credit, unless the transferee corporation establishes by the clear preponderance of the evidence that the securing of the exemption or credit was not a major purpose for the transfer.

Thus, present law applies only to direct transfers of property other than money. The bill amends the section to include indirect transfers of property other than money. Cases have been presented to the conferees where a newly organized subsidiary—created by expanding, rather than merely changing the location of the business—in the ordinary course of its business purchases merchandise from a centralized warehouse maintained by the parent corporation. In such a case, it is not intended that any surtax exemption or accumulated earnings credit be disallowed under the amendment where a major purpose of the separate incorporation was not the securing of an additional surtax exemption.

Thirteenth. Present law, in certain cases, provides head-of-household treatment; namely, a tax rate which is approximately halfway between that applicable to single people and the split-income rates applicable to married couples. This treatment is available where a taxpayer maintains in his household his children, or other relatives, who are his dependents or maintains a household—which may be apart from his—for his parents if they are his dependents. The Senate amendment would have modified this to provide head-of-household treatment not only for fathers and mothers who live outside the taxpayer's own home but also children and other relatives who are dependents. The head-of-household treatment is available so long as the taxpayer maintains a home for any of these persons whether or not it is his own home. The conferees decided to delete this modification of head-of-household status, in order to have the opportunity to study various possible modifications more carefully than would be possible in this bill.

Fourteenth. The House conferees accepted the Senate amendment which permits a deduction for losses occasioned by the seizure by Cuba of personal residences and other personal property. The Senate amendment treats these losses as losses arising from a casualty. This amendment was clearly intended to apply in the years 1959 and 1960 when most, if not all, of these expropriations in Cuba took place. However, through inadvertence when this amendment was offered, no provision was made for an effective date for the amendment, and as a result the amendment has only pros-

pective application. To overcome this effective date problem it is expected that subsequently legislation will be presented to the Congress to make this provision effective for the taxable years ending after December 31, 1958. At that time, it will also be possible to consider more precisely the scope such a provision should have.

Mr. GORE. Mr. President, will the Senator from Louisiana yield?

Mr. LONG of Louisiana. I yield.

Mr. GORE. In the case of a taxpayer who owned a large home in Cuba, how, under present circumstances, would the fair market value of such property be determined?

Mr. LONG of Louisiana. Ordinarily, the taxpayer under this provision would get a deduction for what he paid for the house.

Mr. GORE. He may have purchased the house 10 or 30 years ago.

Mr. LONG of Louisiana. That means he would be limited to the price he paid 30 years ago. That is the rule on expropriated property, it is limited to what he actually invested at the time unless this is less than its fair market value.

Mr. GORE. But the property might be worth only a fractional sum of what he paid originally—or what it was imagined to be worth 30 years ago and what may be a fair price now.

Mr. LONG of Louisiana. The Senator may be correct, but he is asking me what the law is. My understanding of what the law will be in this case is that a person whose personal property has been expropriated gets whatever figure is lower—what he paid for it or what the fair market value is.

The lower of the two figures is the one which the person is able to claim.

Mr. GORE. What I am asking the Senator, really, is with respect to the workability of the provision. Obviously, there is no point in the Senator's and my arguing the advisability of this special provision. There is a real question, however, as to how a fair market value can now be determined in Cuba.

Mr. LONG of Louisiana. The burden is on the taxpayer to establish it. The problem is not an entirely new problem. We had to deal with it in foreign claims legislation in years gone by. Thus far, there has been very little contention made that we have not been able to arrive at a fair market value of the property taken, even though in some respects, I am sure, the responsible agency of Government, whether it was the tax collector in one case, or the Foreign Claims Commission, in the other, had to do the best it could with the information available to it.

Mr. GORE. Would the Senator have any estimate of the number of private residences involved in the amendment, and their approximate tax consequence?

Mr. LONG of Louisiana. The amendment in question is prospective. That was not the intention. However, that is how it stands at the moment. So far as I know, there are none now, because the Castro government has seized everything in Cuba, and that was done in previous years. Therefore, we shall have to have a second look at the subject when legislation is passed to implement what we thought we had done.

As the Senator knows, the amendment was originally offered by the Senator from Delaware. Of course he had in mind including those who lost their homes in 1959 and 1960. By inadvertence, he failed to place an effective date in the amendment, with the result that the legislation will have to be amended to give relief to a person whose home has been taken.

I do not know how much would be involved or how many homes would be involved. The person who made the claim would have to be a resident of the country or a U.S. citizen.

Mr. GORE. He does not have to be a resident of the country. If he is a citizen of this country, even though he be a bona fide resident abroad, he would still be entitled to the benefit.

Mr. LONG of Louisiana. I believe I said that. I believe I said he would have to be a resident of this country or a U.S. citizen.

Fifteenth. The Senate took to conference an amendment which would have provided that insurance proceeds received as a result of the destruction or damage to crops may be reported for

[P. 3402]

income tax purposes in the year following the year of destruction or damage if the taxpayer satisfied the Secretary of the Treasury that the income from the crop would not under normal circumstances have been reported until the later year. This amendment was not agreed to by the conferees. The House conferees felt since this bill already contains a general averaging provision that if this resulted in real hardship the general averaging provision would be likely to give relief in cases of this type. It was also suggested that it would be particularly unfortunate to, on the one hand, adopt the general averaging provision in order to do away with special averaging devices, and then in the very same legislation add a new special averaging device.

Sixteenth. The Senate took to conference two amendments offered by the Senator from Alabama [Mr. SPARKMAN] relating to disabled persons. The first amendment provides a deduction of up to \$600 for transportation expenses of going to and from work for a taxpayer who is disabled to such an extent that he cannot use public transportation facilities. The second amendment provides an extra \$600 exemption for a disabled taxpayer or a disabled spouse. For this purpose a disabled individual is one who is under a permanent physical or mental disability which can be expected to render the individual involved unable to engage in any substantial beneficial activity. These amendments were not acceptable to the House conferees. It was pointed out that we had held no hearings on these amendments and that if aid for disabled individuals were to be provided it was not clear that these would represent the most desirable forms of aid to provide. It was pointed out, for example, that the extra \$600 exemption for disabled taxpayers would be unlikely to do them much good unless they had investment income, since the disability must be sufficient to render them unable to engage in any substantial activity. In view of these considerations, your conferees were unable to retain these amendments in the bill as agreed to by the conferees. *Al-1*

Seventeenth. The Senate took to conference an amendment which would permit the Secretary of the Treasury to grant a claim for refund of taxes paid for gasoline used on farms where the claim is filed after the period specified by law—namely, June 30 to September 30—if the claimant can establish to the satisfaction of the Secretary good cause for failure to file a timely claim. The House conferees were unwilling to take this amendment in this bill since this deals with an excise tax question and they believed that excise tax issues should await later consideration. This, of course, also is generally the policy we followed here on the Senate floor, although we did not adhere to that policy in this case since this did not involve a rate reduction.

Eighteenth. The Senate took to conference a provision allowing a double investment credit for facilities or equipment purchased or acquired to control water or air pollution. This double investment credit means that such equipment or facilities would receive a 14-percent investment credit, instead of the usual 7-percent credit. The House conferees would not agree to this amendment. They questioned whether there had been adequate consideration of this

provision and also expressed doubt as to the desirability of providing tax benefits for the acquisition of specific types of equipment or facilities regardless of how desirable the facilities or equipment might be.

Mr. CARLSON. Mr. President, will the Senator from Louisiana yield?

The PRESIDING OFFICER (Mr. BREWSTER in the chair). Does the Senator from Louisiana yield to the Senator from Kansas?

Mr. LONG of Louisiana. I yield.

Mr. CARLSON. As has well been stated by the Senator from Louisiana, who handled the bill in the Senate, in the committee there was no disposition to be opposed to the amendment in regard to the expenses of transportation of the disabled, as such; but in the committee we felt—and the Treasury felt the same way—that we should look into this matter; I do not think I am betraying a confidence when I make this statement. So I hope that some day Congress will legislate in this field.

Mr. LONG of Louisiana. I thank the Senator very much.

Mr. SPARKMAN. Mr. President, will the Senator yield at this point?

Mr. LONG of Louisiana. I yield to the Senator from Alabama. *Al-2*

Mr. SPARKMAN. I would like to ask a question on the amendment that is brought forth in the report on page 55, amendment No. 201. That is the amendment that would have allowed additional personal exemptions for disabled persons who incurred expense because of the necessity of having to afford unusual transportation.

This amendment was taken to conference. I realized at that time, and I so stated frankly on the Senate floor, that I did not have the Treasury's estimate as to what the cost would be. However, I was aware, when the figure was submitted to the conferees, that it appeared to be too large for absorption, particularly in view of the fact that neither the House committee nor the Senate committee had made a study of this provision. That was the reason why it was dropped; was it not?

I know the custom of the Treasury as well as I know the custom of any other Government agency in regard to making estimates. The estimates are made usually on the assumption that every disabled person who was working and who came under this category would claim the exemption up to the full amount of \$600, which of course greatly inflates the cost.

I cannot quarrel with the conferees, since they had not had an opportunity to go into this study carefully, but I ask

of the Senator from Louisiana, representing the Finance Committee, that it continue to give consideration to this subject. I believe it is a good provision. We already have special provisions for certain classes. I believe that this class is highly deserving; and I hope that the subject will be studied and that a careful estimate will be made as to what the loss of revenue would be. I hope the Senator is in a position to assure us that this provision will not be dropped, but that it will receive attention from the Finance Committee.

Mr. SPARKMAN and Mr. JOHNSTON addressed the Chair.

The PRESIDING OFFICER. Does the Senator from Louisiana yield?

Mr. LONG of Louisiana. Mr. President, I am sure the Senator from South Carolina has the same interest in this matter, and I would like to yield to him before I yield to the Senator from Alabama, because the Senator from South Carolina was a coauthor.

Mr. JOHNSTON. I was a coauthor of the amendment. In this particular instance, I was interested in the feature with respect to the taxpayer who is totally and permanently disabled. Instead of having an exemption of \$600, he should have an exemption of twice that amount, or \$1,200. That is the main part of the amendment in which I was interested. As the Senator from Louisiana knows, a taxpayer who is blind or a taxpayer who is 65 years of age or over receives an extra exemption of \$600. I could not understand why this proposal was stricken out. We voted twice—first on the amendment which the Senator from Alabama was discussing, and then on the amendment I am discussing.

I hope that something will be done in the near future for the taxpayer who is totally and permanently disabled. I think it will be found that most of them have little income, and a large majority have no income and pay very little income tax.

Mr. LONG of Louisiana. I thank the Senator. As the Senator from Alabama and the Senator from South Carolina know, I have much sympathy with what they are seeking to accomplish. The House conferees made much of the fact that the Senate had had no opportunity to study the proposal and conduct hearings on it. The chairman of the House conferees made the point that his committee proposes, when possible, to conduct hearings in the general field of disability and undertake to provide relief for the more meritorious cases. Whether the totally and permanently disabled persons would constitute the most meritorious type of case, the House conferees are not willing to commit themselves.

I am in sympathy with the amendment. I hope that at the appropriate time; in the not too distant future, hearings may be held on this subject, and that the general field of disability will be considered, to learn what additional relief might be accorded. The House conferees made no commitment as to when the House committee would consider this subject; but I am satisfied, from my understanding of the disposition of Members of the House, that there is a firm determination to consider this problem eventually. When that will be, I do not know.

A 62-2
The Senator from Alabama and the Senator from South Carolina have many times initiated action on important

[P. 3403]

measures dealing with small business, veterans, low-cost housing, and other activities of that sort, both in the general legislative field and in the tax area. I welcome their efforts in this field, because I am sure they will be productive, eventually, of relief along the lines they are suggesting.

Mr. SPARKMAN. I appreciate the manner in which the Senator from Louisiana has handled the matter. I believe that the Committee on Finance will, at the first opportunity, give most serious consideration to this provision.

Mr. LONG of Louisiana. I thank the Senator from Alabama. I appreciate the support which he gave to the bill. I am sorry we were not able to bring his amendment, or at least some portion of it, back from conference. I am satisfied that if he will persevere in this area, as I am sure he will, his efforts will not be in vain.

Mr. BEALL. Mr. President, will the Senator from Louisiana yield briefly, in connection with an amendment which is not included in the report?

Mr. LONG of Louisiana. I yield.

Mr. BEALL. Mr. President, before we take final action on the Conference Report, I should like to bring to the attention of the Senate and of the Floor Manager a matter relating to the administration of our tax laws. Over a period of years, I have received numerous complaints from taxpayers regarding inconsistency in the handling of income tax returns. Many of my constituents have written that returns which have been audited and accepted over a period of years are subsequently rejected, although no substantial change has occurred.

Recently, my attention was directed to a case involving depreciation rates. Let me illustrate by citing the experience of one Maryland corporation. The cor-

poration's returns for the years 1952-53 and 1954 were examined; and in the report, dated January 20, 1956, no change was made in rates of depreciation. Thus, the rates applied by the corporation were accepted. Subsequently, the returns of the same company for the years 1960 and 1961 were examined; and in the examiner's report, dated May 24, 1963, the rates of depreciation were changed on the apartment buildings from 4 percent to 2 percent, or from 25 years to 50 years; and the rates on equipment were changed from 6 $\frac{2}{3}$ percent to 4 percent, or from 15 years to 25 years. This was in spite of the fact that the original rate had been approved for all years prior to 1960.

This depreciation case, it seems to me, reflects procedures contrary to our intention in the enactment of the tax laws. Mr. President, I believe that a taxpayer should have some assurance that the rulings of the Internal Revenue Service will be binding and applicable to future returns.

The enforcement of our tax laws is expensive to both the Government and individual taxpayers. I hope the Internal Revenue Service will look into this matter and will adopt procedures by which taxpayers can be sure of some finality in decisions rendered affecting individual tax returns.

Does the Senator from Louisiana wish to comment on that point?

Mr. LONG of Louisiana. Mr. President, I do not believe this matter was in conference.

I have great sympathy with the statement of the Senator from Maryland in connection with this matter, and I hope very much that perhaps at a future time we may find some way by means of which we can legislatively require more definiteness and more consistency in the rulings of the Internal Revenue Service. I have not been able to find a way in which to correct that situation, but I invite the help of the Senator from Maryland in that field. Businessmen are entitled to know where they stand.

Mr. BEALL. I feel that the rulings and decisions should be consistent.

Mr. LONG of Louisiana. I agree with the Senator. I hope he will give us his best advice as to ways in which we can meet that situation in the future. I, myself, have received similar complaints.

Mr. BEALL. I thank the Senator from Louisiana.

Mr. LONG of Louisiana. I thank the Senator from Maryland.

Mr. RANDOLPH. Mr. President, will the Senator from Louisiana yield?

Mr. LONG of Louisiana. I yield.

Mr. RANDOLPH. The Senate con-

ferees receded on an amendment which was adopted by the Senate and had to do with water pollution or air pollution, in the sense that facilities or equipment to control water or air pollution would have qualified for a credit against income tax twice the amount determined under the section of the code relating to investment in certain depreciable property.

The Senator from Louisiana will recall that a yea-and-nay vote was not taken on this Senate amendment; but the acceptance of the amendment by the Senate, together with the fact that it was sponsored by approximately 25 Senators, indicated that the matter was considered to be of very great importance.

Frankly, I feel that the conference report should have included the provisions set forth in amendment No. 203, as adopted by the Senate.

Let me ask: What was the discussion on this amendment in the conference committee, and what was the reasoning of the committee concerning this amendment?

Mr. LONG of Louisiana. Mr. President, the position of the House conferees was that this is a very large subject, and undoubtedly will be dealt with in the field of legislation, both in connection with authorization bills and appropriation bills, and perhaps tax bills. But the view of the conferees was that this matter had not been studied by either the Senate committee or the House committee; and the House conferees felt that the matter should be studied in greater detail and in connection with other measures which undoubtedly will be enacted by Congress in order to seek to provide some correction of the pollution situation which exists in the country.

I agree with the Senator from West Virginia that Congress should act in this field.

Mr. RANDOLPH. Then I understand that I can be assured—as other Senators who also are interested in this subject would wish to be assured—that the conferees do consider this to be an important problem.

Our Special Subcommittee on Air and Water Pollution of the Committee on Public Works has been finding the existence of conditions which, in some instances, are tragic.

Last week we investigated a situation in which we found that in one county in one State there were 30,000 less head of livestock than there had been just 6 or 7 years ago; and it was said this condition is due to certain industrial acids polluting the air.

We do not allege or imply that the in-

dustries concerned are not trying to correct this situation. In fact, many of them are spending millions and millions of dollars to do so. However, the problem and its implications are very complex and very important. I understand that the conferees feel that this whole pollution problem is a matter of concern for the Congress to approach again in the very near future. Is that correct?

Mr. LONG of Louisiana. So far as I know, this is the first time this matter was presented to those who serve on the House Ways and Means Committee. So far as I know, they were not satisfied that this is the best approach to the matter. But the Senator from West Virginia himself is well aware of the fact that even those who initiate a proposal sometimes see it eventually become law with the name of some other sponsor placed on the law as the chief sponsor, and perhaps with a Member of the House as the sponsor, because revenue measures must originate in the House.

As I have said, although the House conferees did accept the great majority of the Senate's proposals, yet in view of the fact that our committee had not had an opportunity to conduct hearings on this subject and the House committee had not conducted hearings on it, the House conferees were not willing to accept this amendment.

But I have no doubt that we shall make headway in this field, and that this approach will be considered again, and that sooner or later the House will either send us a measure dealing directly with this field or will accept a tax approach in line with the one the Senator from West Virginia has joined in sponsoring.

Mr. RANDOLPH. I thank the Senator from Louisiana for the explanation he has given.

It is gratifying that this matter was discussed in the conference. This problem must be met. Ample tax credit should be accorded industries which are attempting to accomplish pollution abatement by making huge capital investments in facilities and equipment which do not add value to goods produced, and the costs of which must be absorbed in production expenses.

Mr. LONG of Louisiana. I thank the Senator from West Virginia; and I join in his expression of hope that this effort will lead to constructive action on a private-enterprise basis. So far as I know, this is the first time an amend-

[P. 3404]

ment dealing with pollution control has been before the Finance Committee.

Mr. CARLSON. Mr. President, I do not wish to detain the Senate. However, in view of the unanimous-consent agreement that was reached earlier today, this is the only opportunity a Senator has to express his views on the conference report on the tax bill, inasmuch as a vote will be taken almost immediately after the session convenes tomorrow.

As a member of the conference committee I signed the conference report. We are all indebted to the distinguished Senator from Louisiana [Mr. Long] for the fine way in which he handled the bill on the floor of the Senate and also in the way in which he assisted in writing the report of the committee.

I shall vote for the conference report because I believe taxes, both personal and corporate, are too high.

I question very seriously whether the bill as it now stands will make a lasting and strong impact on unemployment. To cut taxes at a time of heavy budgetary deficits and an increasing rate of spending may temporarily produce favorable results in the economy, but it seems to me in the long run it will prove self-defeating.

I fully realize there is a difference of opinion as to whether an effective tax reduction should aim to strengthen consumer purchasing power or whether our tax laws should be so written as to provide additional incentive for investment in industrial plant expansion.

When we look at what has happened since 1956—when the rise in unemployment started and which is still plaguing us—we find that the lag was not in personal consumption—it was not in personal income and it was not in labor income, which has continued to increase. During that period corporate profits actually declined, as did expenditures for new plant and equipment if converted into constant dollars.

I am fearful that the substantial tax reduction we are giving consumers—which I favor—will not greatly expand our industrial growth.

The second reason why I believe we may not receive beneficial results from this tax reduction is the ever-increasing rise in the Consumer Price Index. Last year the Consumer Price Index rose 1.7 percent. The increase was somewhat greater than in 1961 and 1962, though about equal to the advances registered in the 2 preceding years.

Some economists have stated that a 2 percent rise in price spread throughout the economy would wipe out all the increased demand that the tax cut is designed to create. We cannot ignore the threat of inflation. If inflation

worked out evenly, there would be a proportionate income tax and capital levy on rich and poor alike. It never works out evenly, but falls on those least able to protect themselves.

I do not want to appear as a prophet, but neither do I want to vote for this conference report without stating that in my opinion, it will not greatly reduce unemployment. It will bring about increased costs to the consumer and thereby greatly reduce the benefits of the proposed cut.

If this tax cut fails to greatly reduce our unemployment, next year we will be confronted with demands for expenditures of billions of dollars for public works, which will result in further fiscal irresponsibility.

As I stated in the beginning, I am voting for this conference report because I believe both personal and corporate taxes are too high, but I have no illusions of the effect on our Nation's economy.

Mr. McCLELLAN. Mr. President, during the debate on the tax reduction bill, I offered an amendment which would have related a tax cut to a limit on Federal spending. Although the amendment failed of passage, I remain convinced that the problem of Federal expenditures and budget deficits is one of the most serious domestic problems confronting the United States today. In the February 18 issue of the Wall Street Journal, the lead editorial discussed this problem and suggested that Congress set a dollars and cents limit on what can actually be spent in a fiscal year. The editorial also pointed out the necessity for relating spending legislation to taxing legislation. I ask unanimous consent that this editorial be inserted in the RECORD at this point.

There being no objection, the editorial was ordered to be printed in the RECORD, as follows:

HAVING IT BOTH WAYS

Federal budget projections are by nature highly conjectural: No one can claim to know whether President Johnson will succeed in holding spending to the slightly less than \$98 billion he estimates for the next fiscal year. But even with grim determination on his part, congressional procedures are so sloppy that anything can happen to the fiscal guesswork.

Congress is much criticized these days for alleged lethargy; actually, the speed with which it is now acting on taxes and civil rights shows the charges are largely misdirected. In the way it handles the people's books, however, criticism is justified; Congress is woefully delinquent.

As a new study by the Tax Foundation, called "Controlling Federal Expenditures," observes, the present system permits the lawmaker to have it both ways. He can be in favor of economy in theory and still vote

for particular spending authorizations "without having to face, in a clear-cut fashion, the overall fiscal consequences of the total of all of these actions."

Now if the men on Capitol Hill are determined to spend like crazy no matter what, then it is fairly idle to talk about improving the procedures. In fact, the situation isn't all that bad. Even in the chaotic circumstances that prevail Congress carved a respectable sum out of the appropriations requested for the current fiscal period. Setting up a better system could certainly be expected to aid that effort.

Unfortunately, as it is now, reducing requested appropriations is not the equivalent of controlling expenditures. In part the trouble is that many appropriations cover not only the fiscal year in question but run into later years as well. This is more or less unavoidable, because some items—a weapons system, for example—take more than a year to develop.

That necessity should not leave Congress powerless to control spending. A simple and perfectly feasible corrective would be for Congress to set a dollars-and-cents limit on what can actually be spent in a fiscal year. Such a change, in turn, would require Congress to review the budget as a whole; to determine, among other questions, what is the cost impact of defense in relation to welfare spending.

What other changes could be made for better money handling?

The legislators could and should put an end to so-called backdoor financing, the procedure which lets Government agencies spend public funds without benefit of the appropriations committees. You might suppose this improvement would appeal to the members of Congress, who are ordinarily jealous of their prerogatives.

And despite that understandable attitude, Congress should finally consider giving the President the privilege of item veto. Through that device he could strike out particular parts of an appropriations bill, instead of having to veto the whole measure if he objects to any portion of it. The item veto could make an important contribution to the so far unsuccessful war against the pork barrel.

Not least, Congress should relate its spending legislation to its taxing legislation. The relationship seems so elementary that it is little short of incredible to find the lawmakers exercising each function as though it were in a vacuum.

These are by no means all the possibilities that have been suggested, but they indicate how much more Congress needs to do to inaugurate a rational accounting system. Like much else in Government, the present system, or lack of one, just grew haphazardly through the years, without anyone really trying to pull the whole thing together.

When the Federal Establishment was spending only a few millions a year—except for one Civil War year, 1917 saw the first budget over a billion—the fiscal sloppiness did not matter so much. In an era of \$100 billion budgets, it matters a great deal.

The lawmakers may enjoy being in favor of economy in theory and extravagance in

practice. But it is grossly unfair to the citizens who have to foot the bill for wasteful bookkeeping.

Mr. McCLELLAN. Mr. President, while I have been gratified at the President's efforts to achieve economy in Government, I have serious reservations about the fiscal year 1965 budget which was submitted recently. Mr. Lloyd Morey, former State auditor of Illinois and professor of accounting at the University of Illinois, analyzed the 1965 Federal budget in the February 16 issue of the Chicago Tribune. I share some of many of Mr. Morey's apprehensions, and I feel that the Members of this body would profit from a reading of Mr. Morey's analysis of the budget. I ask unanimous consent that his article be inserted in the RECORD at this point.

There being no objection, the article was ordered to be printed in the RECORD, as follows:

THE 1965 FEDERAL BUDGET

POMPANO BEACH, FLA., February 11.—The American people have just been presented with a financial program for their Federal Government for the fiscal year 1965, beginning next July 1. The words "frugality," "austerity," "economy," and "realistic" have been used frequently in describing it. It is said to represent a heavy cut in spending. Do the facts justify these claims?

Appropriations are requested for expenditures totaling \$97.9 billion. This is commended as being \$900 million less than requested for fiscal 1964. But to date Congress

[P. 3405]

has appropriated only \$92.4 billion for this year. Hence, the new budget is \$5.5 billion greater than current spending authority. The President says he estimates the expenditures for this year to be \$98.4 billion. But if this is the case, the added sum must come from balances carried over from previous years, unless Congress makes additions.

Actual expenditures in fiscal 1963 were only \$92.6 billion. The requested budget is \$5.3 billion more than it took to run the Government the last completed full year. True, there are several areas where reductions are indicated. But in several of those, including defense, the request is for more than was actually required in 1963 or appropriated to date for 1964. These reductions are largely offset by increases elsewhere; for example, space operations, public works, education, welfare, and, of course, interest, because debt will increase.

Actually, the drastic cutting of the budget is mainly in the requests of agencies, and not in current costs. The total is only a little less than the current scale of spending, and more than currently appropriated. The public is asked to believe that a substantial reduction has been made because the final budget is less than the earlier forecast of \$100 billion.

Revenue is estimated at \$93 billion. This is \$6.6 billion more than in the last completed fiscal year 1963 and \$4.6 billion more than now estimated for 1964. It faces a \$11

billion tax cut for calendar 1964. The original budget for 1963 estimated revenue at \$93 billion, although actual revenue was only \$86.4 billion. To expect \$93 billion in 1965 seems highly optimistic.

Again there is an expected deficit in the midst of unprecedented national income, consumer spending, savings, and general prosperity. A balanced budget is not accomplished. Its chances are decreased by a tax cut when people generally are able to pay and when the Government needs the money, all in the uncertain hope of increased prosperity.

The deficit is praised because it is less—\$1.4 billion under 1963 and \$5.1 billion under what the President says he expects to spend in fiscal 1964. But it is only \$900 million less than the deficit in the 1964 budget as it now stands. If the current estimates or revenues are no better than those in 1963, the 1965 deficit may be much greater than the present, or as now anticipated for 1965.

The budget is, indeed, a small step in the right direction. If it works out. But the revenue estimate is extremely shaky, and expenditures are rarely as low as estimated. Hence, we are likely to wind up worse off than we are now. In any event, there is another big deficit, more debt, and the likely prospect of more inflation and higher living costs. The most desirable goals—a balanced budget and debt reduction—are again postponed to the distant future.

There is little here to justify the claims of economy and fiscal progress. There is a great deal to provoke disappointment and anxiety. There is every reason to call for continued effort by individual taxpayers and citizens' organizations to insist to Members of Congress on further curtailment of Government costs, and to cease protesting when cuts are proposed which affect their communities and activities.

LLOYD MOREY.

Mr. McCLELLAN. Mr. President, the February 17 issue of the Arkansas Democrat contained an editorial dealing with the issue of taxes and spending. The editorial raises some timely questions. I ask unanimous consent that it be inserted in the RECORD, at this point.

There being no objection, the editorial was ordered to be printed in the RECORD, as follows:

WILL LASTING ECOOMY JUSTIFY TAX CUT?

Near now to the tax-blistered citizen is the ointment of a \$11 billion cut in Federal income taxes on individuals and corporations. The bill, OK'd by both Houses, has gone to a conference committee for ironing out differences in the two measures.

When that's done, the two Houses must pass the committee's work. This should cause no great delay—unless the conference bill should foul up in a Senate wrangle in the civil rights bill, which the House has passed. A Senate filibuster against the rights bill, perhaps for weeks, seems virtually sure.

However, parliamentary tactics may hold up the rights bill in the Senate—which is 90 percent a wrongs bill—till the tax-cut measure is passed.

President Johnson gave the tax cut its winning stride in the Senate with his economy budget and his promise of further savings. It will take some lively doing on his part to make economy stick.

He'll have to watch the Federal bureaucracy like a Sosctch terrier studying a rathole. And he has a throng of foreign and domestic problems to distract his attention.

Add to that his own grist of proposals for larger spending. Add also the demands of pressure groups and the bias for spending of many Congressmen. It all stamps a tall question mark on continued economy, which must go with a tax cut if it isn't to be more fuel for inflation.

Mr. McCLELLAN. Finally, Mr. President, in the February 21 issue of the Arkansas Democrat is an article by Karr Shannon entitled "Tax Cut, Deficit Spending Will Down Dollar's Value." I ask that excerpts from that article be inserted in the RECORD at this point as a part of my remarks.

There being no objection, the excerpts were ordered to be printed in the RECORD, as follows:

TAX CUT, DEFICIT SPENDING WILL DOWN
DOLLAR'S VALUE

(By Karr Shannon)

Congress has passed the Kennedy-Johnson tax cut proposal, while permitting deficit spending to continue. This means the buying power of the dollar will continue downward. James Daniel predicts in the Reader's Digest, February issue, that the dollar value will dwindle at the rate of 1½ percent per year from here on out. He says the increase in cost of living will wipe out the tax cut savings of many people.

President Johnson's * * * budget provides for spending \$97.9 billion in the fiscal year beginning next July 1, but the same budget indicates that the President will ask for an additional \$4.2 billion in supplemental appropriations. Deficit spending will run to \$5 billion or more.

His budget message to Congress was as full of optimism as a seed catalog. He discoursed at length on "economy and progress" and his "war on poverty." He glorified his vast welfare programs along with rosy predictions of an economy braced with an \$11 billion tax cut. But in this avalanche of figures and outpouring of contradictions, he gave no estimate as to when he expects to balance the budget.

He offered no plan for reducing the national debt by 1 red copper, but estimated that the debt would increase to \$317 billion in the next fiscal year. This means that, despite the tax cut, deficit spending and borrowing will go on and on, speeding our destination down the road to ruin.

It is reliably reported from Washington that interest on the national debt next year will reach the staggering figure of \$11.1 billion. That is, we'll be paying an average of \$1,267,080 per day for interest—nothing on the principal. This runs to \$21,119 per minute. It's horrifying.

* * * * *

Mr. McCLELLAN. Mr. President, I voted against the tax bill, not because I do not think taxes are too high. I do. But I think spending is higher than taxes, and we ought to start to reduce spending, first. Let us reduce expenditures to the level of taxes, and then cut both.

Mr. GORE. Mr. President, the Senate approaches the final procedure of enactment of an unfair, an unsound, and an unwise tax bill. If it could be successfully argued that such a bill would solve so much as one of the pressing problems of our society, then perhaps one could in good conscience consider supporting it. The bill will not solve one single pressing problem of the American people. True, it will provide tax reduction for many, but only a very small reduction for the very many, and a very large reduction for the very few.

Much has been said in the last 2 days about how take-home pay will be increased soon by the enactment of the bill. Let those who dwell upon this contemplate that for the average working man or woman, the increase in take-home pay will be only 4, 5, or 6 percent—a small percentage increase, of small amounts. But for those with high taxable income, the increase in take-home pay will run to as high as 100 percent—indeed, to as high as 134 percent, a high percentage increase of large amounts. It appears to me that this is most unfair.

Mr. President, I wish to advert to the pressing problems of our society. What are those problems? Is it for greater productive capacity for automobiles, or for better education? Is it for more skyscrapers, or for more hospitals? Is it for increasing after-tax income, doubling after-tax income for those in the high income brackets, or the provision of jobs for those who are without jobs and without income?

The bill makes no contribution to education, no contribution to hospitalization. It makes only a doubtful contribution, if any at all, to the alleviation of unemployment. It makes no contribution to slum clearance, to the elimination of stream pollution, to mass transportation, to the completion of our highway system.

What will the bill do? It will increase the deficit. Its enactment will require the Government to sell bonds, thus increasing the public debt in order to give tax reductions, and this, Mr. President, at a time when this country is enjoying the highest prosperity in its history. Statistics have just been released for the last quarter of 1963. They show that the gross national product leaped upward by more than \$11 billion. Yet we proceed to enact a bill to insure against recession in 1964.

There are times when it may be advisable to have deficit financing. There have been times when I have urged it. I am not one who thinks we should balance the budget on every and all occasions. Conversely, however, I am not one of those who thinks we should never have a balanced budget.

What will the bill do? Instead of solving any of our pressing social prob-

[P. 3406]

lems, this measure provides for a permanent reduction in governmental revenue, a permanent reduction in the percentage of the gross national product which will go into Government revenue. It will, therefore, permanently impair the capacity of the Government to provide solutions.

Of course, I know it is said that if we reduce taxes, governmental revenue will increase. Mr. President, with the growth the country now is enjoying, governmental revenue may very well increase after the enactment of this measure, but not as a result of it. Governmental revenue would increase far more without the enactment of this measure. Indeed, the statistics for the last quarter of 1963 indicate that we may be in a period of expansion in which, without the enactment of this measure, the budget could be balanced in the next fiscal year—and even more, we could also have a surplus, to be applied either to retirement of the debt or to alleviation of the specific problems to which I have referred.

But, Mr. President, this battle has been lost, although I did the very best I could to convince the Senate of the error of this bill.

We come now to the final act—the question of agreeing to the conference report. I shall vote against acceptance of the conference report. I could not in good conscience vote for adoption of the report, which, I repeat, is unfair, unjust, undemocratic, unwise, and unsound.

Even so, Mr. President, I wish to say a word of commendation of the Senate conferees. I think they acted as agents of the Senate, and did so conscientiously and dutifully. I know the Senate conferees vigorously supported positions taken by the Senate on which they had previously, as individual Senators, taken an opposite position. That is true of the distinguished senior Senator from Virginia [Mr. Byrd], the chairman of the committee; and it is also true of the distinguished junior Senator from Louisiana [Mr. Long], who managed the bill on the floor of the Senate. Indeed, I believe it to be true of every one of the Senate conferees, in one case or another.

This is an improvement, Mr. President, over the action of some Senate conferees on some bills in previous years; and I am glad to see it.

Although I am keenly disappointed that this measure is to be enacted into law, I take some small consolation from the fact that the conference report contains, in modified form, three amendments which I offered either in the committee or on the floor of the Senate; and also contains a fourth Senate amendment which I was instrumental in having adopted, and on which a separate vote was taken by the Senate; and also contains a fifth amendment—that on stock options—which I am constrained to believe may have flowed in part from a 3-year fight I have waged on this provision of tax preference.

Let me refer to the three amendments in this measure which I offered.

I refer first to the amendment limiting the so-called unlimited charitable deduction for contributions to private foundations. The Senate conferees undertook to persuade the House conferees to accept the amendment as it had been approved by the Senate Finance Committee and adopted by the Senate itself. Our conferees found it necessary to compromise. I do not think the compromise version goes as far as it should. Indeed, I did not think even my amendment went as far as it should. But the compromise is a significant first step in the surveillance by the Treasury Department of private foundations and trusts; it is a significant first step in what I hope will be the ultimate correction of this provision of gross tax abuse.

Mr. President, I suggest that if it be sound—as both the Senate conferees and the House conferees now recommend to us—to hold that a private foundation which serves either the personal interest of a taxpayer or the interest of his descendants is not eligible for an unlimited charitable contribution deduction, why should such a foundation be eligible for the 30-percent ceiling on the deduction for so-called charitable contributions? Is it charity, Mr. President, when a rich taxpayer receives a tax deduction for a contribution to a foundation from which either he or his children or his grandfather receives large benefits, and sometimes almost the entire benefit? So, Mr. President, I am suggesting that we have made a good first step; and we need to make many more.

I am also pleased to note that after a discussion of this subject, which I raised in executive session of the Senate Finance Committee, the Senate Finance Committee unanimously adopted

a resolution directing the initiation of a thorough going study, by the Treasury Department and by the committee, of foundations and trusts.

Building upon that first step, and benefiting by the studies which are to ensue, perhaps there is hope that we can move yet more beneficially in this field.

A second amendment which I offered in the committee is now in the conference report, though again in modified form. I refer to the limitation upon the benefits from employer contribution to group term life insurance which can be tax free to the employee. I shall not dwell on that point at length. Suffice it to say that under present law, there is no limit. The Treasury told us of instances in which officers of corporations were beneficiaries of insurance policies running as high as \$900,000, the benefit being tax free to them.

Mr. LONG of Louisiana. Mr. President, will the Senator yield?

Mr. GORE. I yield.

Mr. LONG of Louisiana. I am sure the Senator would like to have the limit below \$50,000, but the Senator recalls that at one time in the committee he himself offered the \$50,000 figure as a compromise between the Senate and the House.

Mr. GORE. I thank the Senator. That is true. I thought the \$50,000 limit was too high. But I thought some limit was better than no limit. My amendment placing a \$50,000 ceiling on the policies was at one time adopted in the committee. The following day the amount was raised to \$70,000. The conference has brought back the figure of \$50,000.

The provision is a new form of compensation which, by the enactment of the conference report, will be recognized in law. That compensation will be tax free to the extent of the premiums on policies with a limitation of \$50,000. The Treasury recommended a ceiling of \$5,000. So Senators can measure the result achieved in that regard.

The third amendment which I offered that appears in the conference report in modified form relates to the preferential tax treatment of income earned in foreign countries. That provision has been the subject of another long fight.

Last year about 50 percent of the goals which I had sought were enacted into law. The provision in the pending bill is but a small improvement upon those. The pending conference report deals only with tax exemption of personal income earned abroad. The bill enacted last year dealt with corporate taxes on income earned abroad as well as personal income earned abroad.

I should like to compliment the con-

ferrees particularly upon securing adoption of the Senate position on capital gains. That feature of the report represents no improvement on present law. It represents no tax reform. Many types of income are now considered as capital income which in my view should be considered ordinary income. In my view the capital gains rate in present law is too low. But the House of Representatives had made a drastic reduction in the already preferential treatment of genuine capital gains income as well as the statutory capital gains income. That was the worst single provision in the bill as it came to the Senate.

The junior Senator from Louisiana [Mr. LONG] earlier referred to the fact that we had a separate yea-and-nay vote on the amendment years ago. That was a move which I sought, and we struck out the House provision by a vote of more than 2 to 1.

At this point I believe it should be stated that less than half of the conferees representing the Senate had voted in favor of the Senate position on the floor of the Senate and in the committee.

But, Mr. President, to the credit of the Senate conferees, they were agents of the Senate and the position of the Senate and unanimously supported the Senate position. That I appreciate. It was an important victory for the Senate. However, as I have said, the provision will merely hold what we have in present law, though not quite. We should have been going in the other direction, removing from preferential capital gains treatment many categories of income which are not true capital gains at all, but more realistically ordinary income.

I have already alluded to the provision in the bill relating to restricted stock options. Though it is not as much as I had sought, nor as much as I shall continue to seek, in my opinion it will go a long way toward curbing the abuse of that provision of the tax law. The restricted stock option for key employees of cor-

[P. 3407]

porations is compensation as truly as is the salary or the bonus. Therefore, to set that particular form of compensation apart for specialized and preferential tax treatment is an unfair provision of the law.

Mr. President, on tomorrow the final vote will be had, and the bill will then go to the President to be signed into law. Before the vote is taken, let it be noted that the gross national product is now, according to statistics just released, growing rapidly. We are at a peak of prosperity. Lest the advocates of the bill claim that further growth, which is

now clearly indicated with or without the bill, will flow from enactment of the bill, I want the RECORD to show the rate of growth which we are now enjoying. But let the RECORD show also that, while this rate of growth is being achieved, we have the paradox of much unemployment—prosperity and poverty together—unemployment and record production, want and wealth side by side.

It may well be that enactment of the pending bill will provide further stimulation of productive capacity. But I close by asking if that is a pressing need. Where is there a shortage of productive capacity?

Enactment of this bill perhaps is characteristic of our time, when material values rather than cultural and moral values are a measure of life.

Perhaps some day we will have a reassessment of our values and realize that the long-term challenge to this Nation is not in materialism, but in the quality of education, in the measure of human kindness to our fellow man, in the equality of freedom and opportunity, in the degree to which we wage war on poverty, injustice, ignorance, prejudice, and discrimination.

This bill can be no part of a war on poverty. Passage of the bill strips from the Government the ammunition with which to wage a successful war on poverty.

Just yesterday the Secretary of Labor was urging that children be kept in school 2 more years, and yet the exemption for the parents of those children remains at only \$600. We are told of vast needs in Appalachia, of hordes of youth without skills or vocational education, of pressing need for community facilities, housing and jobs, yet we proceed pell mell to cut drastically governmental revenue.

Yes, I regret that the bill is to become law, but one must know when he is defeated, when the last shot is fired, with respect to a pending bill. But the war on injustice, the war on social injustice, on poverty, on disease, on ignorance, on sickness, on lack of opportunity, on lack of employment will go on. We will feel the need, however, of the ammunition which we by this bill give away.

Mr. DIRKSEN. Mr. President, first of all I compliment the distinguished Senator from Virginia [Mr. BYRD]. I recall the discussion and rumors that floated around for a long time to the effect that the Senate Committee on Finance was going to be dilatory and not expedite action on the tax bill. I think it was quickly discovered, when that committee was seen in session day after day, and in the markup sessions day after day,

that there was expedition; and the bill was brought to the floor of the Senate very quickly—particularly when we measure it against the fact that the bill languished in the House committee and the House for 7½ months.

So I compliment the chairman of the committee on the fine service he rendered. I also compliment the distinguished Senator from Louisiana [Mr. LONG], who managed the bill on the floor and sat in the conference.

As I recall, there were 100 subcommittee amendments. That does not include technical amendments. I believe the House receded on 70 of those. There were 13 on which the Senate receded. There were 17 that were compromised, but I think the compromises were largely in the direction of the Senate's position on the bill. That is a notable piece of work in a conference on a bill so long and so involved.

The distinguished Senator from Virginia, the distinguished Senator from Louisiana, and all the other conferees deserve a real pat on the back.

There were 129 witnesses before the committee. 250 statements were filed with the committee. Many witnesses emphasized and labored the point that the bill would work wonders so far as concerns unemployment. I am afraid that they were speculating and using generalized figures that would not stand up under analysis.

Perhaps the most provocative witness before the committee was Dr. Roger Freeman, of the Hoover Institution on War, Revolution, and Peace at Stanford University. If one goes to the trouble of analyzing the figures, he can see the real problem that confronts us at the present time.

Mr. LONG of Louisiana. Mr. President, will the Senator yield at that point?

Mr. DIRKSEN. I yield.

Mr. LONG of Louisiana. I thank the Senator for his kind words about the Senator from Virginia and also the Senator from Louisiana. The committee had an opportunity to consider more carefully the amendments that were before it in committee than did the Senate with respect to amendments that were offered on the floor. I believe, if the Senator will analyze the results of the conference, based on the action of the Senate committee, he will find that about 95 percent of the amendments which the Senate thought were meritorious were agreed to by the conferees.

Mr. DIRKSEN. Which makes the work of the committee even more commendable; for which the Senator deserves an extra pat on the back.

There were some phenomena about the jobless presented to the committee which I think deserve amplification on the Senate floor.

First, it was established from official sources that, as of September 1963, of all the hours worked in industry, 7.4 percent were on an overtime basis. That means that if straight time was at the rate of \$2 an hour for an employee, an employer was paying \$3 an hour for overtime—about 7.5 percent of all the time worked in industry.

One might say that there are more workers than there is work; but the fact is that there is more work than there are workers. I believe the figures submitted to the committee indicated that if we could find enough competence and skill, we could absorb all the unemployed and still have 2 percent of industrial employees working on an overtime basis.

It is a rather singular circumstance that 5 percent of all workers are holding two jobs—commonly referred to as “moonlighting”—while over 5 percent are jobless.

How is that accounted for? There is only one way to account for it. There is not enough skill and competence available to meet the needs of industry; therefore, a production manager is willing to pay \$3 an hour for an overtime employee rather than \$2 an hour straight time, because he knows he will get commensurate production.

That brings us to grips with the real problem—to find more competence and more skill. When we break these generalized figures down, as was done before the committee, we discover that of all those living in households, and heads of households, unemployment was not 5.6 percent but 2.6 percent—and that figure is sustained by figures from the Department of Labor.

If we look at the age factor, in the age bracket from 35 to 44, the jobless rate amounted to only 2.1 percent. But dropping down to a lower age bracket, from 20 to 24, what was the increase? By 2.1 percent? No. It was 7.2 percent; more than 3 times as much.

The same thing obtains among women as among men when it comes to both the age factor and the stability factor.

If it is calculated on a basis of white and nonwhite, I believe the figures will indicate that among the white jobless it was 3.5 percent and among the nonwhite 8.5 percent, which is 2½ times as much.

If we consider teenagers, from 16 to 19, the jobless rate among boys was 14.7 percent; among girls it was 15.8 percent. What was it in Great Britain in that same age group? One percent.

Why was it 1 percent instead of 14 or

15 percent? Because they have a well-guided apprentice training program under which apprentices receive a small stipend in the form of pocket money until such time as they finish their apprentice training and are qualified for jobs in industry.

So what does it all mean? Tax reduction is likely to affect the employment problem somewhat, but on the basis of the figures submitted, I have grave doubt—and so did those who testified as experts—that we should be able to “sponge up” the jobless on the basis of this tax bill.

What we need is vocational training and an apprentice training program for youngsters. We need stability among the younger groups, and then, perhaps, we can start making an inroad on the 5.6 percent jobless who have been with us now for nearly 18 months. We have made virtually no progress in that field.

This requires a new approach. To me, it was an astounding fact—and something of a confession—that almost on the heels of the tax bill, the President [P. 3408]

sent a message with respect to paying or compelling double time for overtime work after a determination by a tripartite government-industry-management committee to evaluate the jobs in a given industry.

That is something of a confession. We are trying to use the power of the Federal Government to beat industrial producers over the head and say, “You will take this man whether or not you wish to do so, or otherwise you will pay double time for any overtime worked by those who have a record for production.” That is, indeed, a confession.

It is about time to break down the generalized jobless figures so that we know where we are going if we ever wish to solve the unemployment problem.

Mr. President, I wish to ask the distinguished Senator from Louisiana a question, for the sake of clarification.

To clarify the point in section 422(b), suppose the board of directors of a corporation has recommended to its stockholders an increase in the number of shares available under an employees’ stock option plan, or had reserved additional shares for the plan, subject, of course to a proper authorization of such increase—would this action constitute adoption and approval for the purposes of the 10-year period mentioned in section 422(b)?

Mr. LONG of Louisiana. In my judgment, the answer is yes. The tax effect should be no different, whatever the method we decided to adopt to achieve the objective sought by the section—

namely, to obtain shareholder approval at least once every 10 years, and also to approve or disapprove management action on an employees' stock option plan.

Mr. DIRKSEN. I thank the Senator from Louisiana for his clarification.

Mr. LONG of Louisiana. Mr. President, I agree with the senior Senator from Tennessee [Mr. GORE] far more often than debate on the tax bill might indicate. Insofar as the RECORD might reflect the contrary, it would perhaps be so, because for the most part the committee agreed with us also. Therefore, there was no dispute about an agreement existing in general.

The Senator from Tennessee has been an extremely valuable member of the committee. He set himself the painful task of undertaking to ferret out and eliminate what he believed to be loopholes and special favoritism with regard to certain taxpayers. This is not a pleasant task to undertake, as I have had occasion to learn.

I am frank to say that often we find that those who should really understand the situation do not appreciate it, but it is something that should be done.

In many respects, the Senator from Tennessee has rendered a great service to the Senate. He was among the first Members of this body, many years ago, to raise the question of justice and fairness in the treatment accorded to insurance companies as compared to others, which resulted in a major change in the law on insurance.

The Senator from Tennessee also pointed up the problem involved in taxation of foreign income which properly was subject to taxation by this country, which again resulted in major changes in our law which exist today.

As the Senator has indicated, there are provisions in the bill which are being changed because of the fight made by the Senator, and many which were included in the bill as the result of the efforts of the Senator from Tennessee. I refer to the stock option proposal. Although it does not include everything that the Senator wanted, that provision is being tightened up in five respects. I refer also to the provision with respect to unlimited charitable contributions. Undoubtedly this will result in a further examination of this subject, and will lead to further legislation in the field of charitable contributions.

The distinguished Senator from Virginia, chairman of the Committee on Finance, has asked—and the committee is following up on his request—that the Treasury Department make a study of this subject and report to the committee.

Mr. GORE. I very deeply and genu-

inely and with the greatest appreciation thank the Senator for his generous remarks. When the going is very rough and the knocks are very hard, and defeat is bitter to taste, one tends to become discouraged. However, so long as one accomplishes a few things, as he travels through the Senate, I suppose he can take some heart and consolation. I particularly take heart and consolation and pride in the esteem and generosity of my distinguished friend, the able and distinguished Senator from Louisiana.

Mr. LONG of Louisiana. The Senator from Tennessee can take much pride in a large number of reforms in the tax laws. He did not achieve everything that he would have taken pride in accomplishing, but the Senator has taken a position which perhaps few people understand; and that is, in respect to his insisting that those who pay far too little in taxes should pay more. In a number of respects he has succeeded in eliminating loopholes in the law which have existed for some time and, in some respects, he has perhaps prevented our creating additional loopholes that would have resulted had he not been so diligent. He has been a very effective and valued member of the committee. I regard him as one of the most valued members of the committee with whom I have had an opportunity to serve during my 12 years of service in the Senate.

Of course I believe the bill to be a far better bill, both as a reform measure and as a measure of social and economic justice, than does my friend from Tennessee. I believe that it is one of the best and most constructive pieces of legislation, particularly in the revenue field, that has been passed in a great number of years. In my judgment, if I may be pardoned for saying so, as the one who handled the bill on the floor of the Senate, the new tax law will prove to be one of the best revenue measures, as well as the most significant revenue measure, which has been passed by Congress in the 15 years that I have been a Member of the Senate.

Like other Senators, and like the majority of the committee, I was very much concerned about the possibility that the bill might provide altogether too much relief to persons in the upper income brackets. I have before me a tabulation of the reductions that would be available to persons in the various income brackets. I ask unanimous consent that the final column of this table, showing the total rate and structural changes, which relate to the income groups which appear in the first column, be printed in the RECORD at this point.

There being no objection, the table was ordered to be printed in the RECORD, as follows:

Revenue bill of 1964, H.R. 8363—Distribution by adjusted gross income class of the full year effect of rate and structural changes affecting individuals¹

AS APPROVED BY THE CONFERENCE (FEB. 19, 1964)

Adjusted gross income class	Total rate and structural changes	
	In millions of dollars	Change as a percent of present tax
0 to \$3,000.....	-565	-30.0
\$3,000 to \$5,000.....	-1,085	-26.0
\$5,000 to \$10,000.....	-3,775	-23.6
\$10,000 to \$20,000.....	-2,160	-17.0
\$20,000 to \$50,000.....	-1,045	-15.5
\$50,000 and over.....	-650	-13.2
Total.....	-9,180	-19.4

¹ Excludes effect of capital gains provisions and repeal of the requirement to reduce basis by amount of investment credit.

Mr. LONG of Louisiana. Mr. President, the table shows that, percentage-wise, by far the greatest percentage tax reduction falls in the lower income brackets, and that the smallest percentage falls in the upper income brackets. By far the bulk of the tax reduction falls in the middle income brackets. That is where it should fall. It is that group which pays the major share of the taxes to this Government so far as income taxes are concerned.

It seemed to me that the real issue, whether the bill was to be a bill to benefit the rank and file taxpayers on an equitable basis, or whether it would be unduly favorable to those in the upper income brackets, depended on whether the Senate prevailed in its capital gains treatment provision. I have in my hand a table showing the manner in which tax reduction would be accorded had the bill been enacted as proposed by the House, compared with the way it would have worked under the Senate language, particularly so far as the long term impact of the bill was concerned.

The Senator from Tennessee had a chart, which he used on the floor repeatedly, showing that while rates were generally regarded as being almost confiscatory in the half-million-dollar-and-above bracket, those who used the capi-

tal gains treatment and other devices—charitable contributions being one of the major items—were successful in reducing their effective tax rate to a far lower rate than the public imagines.

I have a Treasury study which shows that, under the provisions in the House bill, those who had a small percentage of capital gains were paying 47.6 percent, if they were making \$700,000, and that those people would reduce their ef-

[P. 3409]

fective tax rate to 40 percent under the House action. On the other hand, it shows that with the same incomes but with a high percentage of their income in capital gains have effective tax rates of 20.1 percent, and that those people would have reduced their liability to 18.1 percent under the House action.

The same disparity was shown with regard to those making more than \$2 million. Those who had a low percentage of income in capital gains were paying an effective tax of 56.7 percent. Under the House bill that would have been reduced to 46 percent.

Those making \$2 million, with a high percentage of capital gains, who are presently paying 20.9 percent in taxes, would have had their tax rate reduced to 18.5 percent under the House action.

Action of the Senate, in pursuance of the Treasury's recommendation, caused those who had a low percentage of capital gains, and therefore had been paying at a high rate of taxation, to achieve a larger tax reduction that was accorded those with a high percentage of capital gains.

Therefore, those who are entitled to a major tax reduction, because they were actually paying confiscatory tax rates, receive a major tax reduction. Those who were not entitled to any tax reduction, because they were not paying taxes of as much as half of their income, tend in some cases to receive an actual increase in taxes. That is the way it should be.

A table which I have before me demonstrates what I have been trying to explain in general terms.

Mr. President, I ask unanimous consent that the table be printed at this point in the RECORD.

There being no objection, the table was ordered to be printed in the RECORD, as follows:

Changes in effective tax rates from present law, under House bill, and under Senate bill, for high income taxpayers with low, average, and high proportions of capital gains

Adjusted gross income	Percent of realized income			Tax reduction as percent of present law tax	
	Tax under present law	Tax under House bill	Tax under Senate bill	House bill	Senate bill
\$120,000:					
Low capital gain.....	39.6	34.8	34.9	12.2	12.1
Middle capital gain.....	32.0	28.1	29.1	12.1	8.9
High capital gain.....	27.6	24.2	25.9	12.2	6.3
\$170,000:					
Low capital gain.....	42.2	37.0	37.2	12.4	11.9
Middle capital gain.....	31.6	27.8	29.2	11.8	7.5
High capital gain.....	25.4	22.4	24.5	11.9	3.6
\$300,000:					
Low capital gain.....	48.2	41.3	41.6	14.0	13.5
Middle capital gain.....	30.5	27.1	28.9	11.2	5.4
High capital gain.....	22.4	19.6	22.3	12.5	.4
\$700,000:					
Low capital gain.....	47.6	39.9	40.6	16.3	14.8
Middle capital gain.....	26.3	23.1	25.4	12.3	3.5
High capital gain.....	20.1	18.1	21.1	10.4	-4.5
\$2,000,000:					
Low capital gain.....	56.7	46.0	46.4	19.0	18.2
Middle capital gain.....	30.2	25.7	28.0	14.9	7.3
High capital gain.....	20.9	18.5	21.3	12.6	-1.9

Office of the Secretary of the Treasury, Office of Tax Analysis, Jan. 14, 1964.

NOTE.—Realized income is the adjusted gross income increased by the 50 percent of capital gains excluded in computing adjusted gross income. For each income the ratio of deductions to adjusted gross income and of dividends to (adjusted gross income less capital gain) is equal to the corresponding ratio for the corresponding class in 1960 statistics of income. The low gain level is a point at which 25 percent of taxpayers in the class have lower gains; at the high gain level 25 percent have higher gains; the middle level is the average ratio of gain to other income. It was also assumed that, at these high brackets, 90 percent of realized long-term gains are class A.

Mr. MILLER. Mr. President, the adoption of the conference report on the administration's tax bill is assured. I shall vote against it.

It will be a stab in the back of the poverty sector of our country, over which this administration professes to be so much concerned.

Millions of citizens do not have enough income to pay income tax. They will receive no tax reduction under the bill. But they will feel the sting of the reduced purchasing power of their social security pensions, their savings, and their insurance as a result of the inflation which will follow.

Under the bill there will be multibillion dollar deficits for fiscal years 1964 and 1965. Without the bill, we could reasonably have expected Federal revenue and Federal spending to balance out during these years. This would have meant a stable dollar and no inflation.

The proponents of the bill say that we will have deficits without the bill; so we might as well have bigger deficits with it. They deny that the bill will result in inflation, but they merely close their eyes to reality. They do not like to face the fact that during the last 3 years this administration has run our country \$20 billion deeper into debt; that we have had inflation of \$21 billion; that the retail cost of living index has gone up from 214.6 to 222.3; and that the purchasing power of the dollar has

fallen from 46.6 cents, based on a 1939 dollar worth 100 cents, to 44.9 cents.

The cost of living index will continue to go up, and the purchasing power of our money will continue to go down, as a result of the multibillion deficits this tax bill will help to produce.

Escalation clauses in labor-management contracts will automatically result in wage increases. Other workers will be forced to demand higher wages in order to get more dollars, because all of their dollars will be worth less. Congress will be called upon to increase social security pensions. Construction costs of schools and hospitals will go up. Property taxes will be increased. Conveniently enough, most of these events will take place after the election this fall.

But when these things happen, let the people know that this administration and its controlled, rubberstamp Congress are responsible.

The idea that we can spend more money and cut taxes at the same time is just the old "something for nothing" gimmick in a new package. The people cannot get something for nothing, even on the New Frontier.

Mr. President, the distinguished Senator from Louisiana brilliantly handled a most difficult, complex tax bill. As a tax lawyer by profession, I can recognize difficult legislation when I see it. The pending tax bill is one of the most complex pieces of proposed legislation to

come before the Senate since I became a Member of this body. The Senator from Louisiana had an extremely difficult assignment in handling the bill. There were occasions when I disagreed with him; there were occasions when I supported him. Regardless of whether I disagreed with him on some points or agreed with him on others, he is to be commended for his fine work in handling an extremely difficult piece of proposed legislation.

I regret very much that apparently we are in deep disagreement in some areas of economic philosophy. I feel strongly that the bulk of the benefits under the tax bill will not accrue to the lower income areas. I have already stated that those in the poverty sector, those not having enough income to pay an income tax, will be out in the cold and will be stuck with inflation. Millions of people in the lower and middle income areas will get little, if any, benefit from the tax bill. Even taking into account the extra dollars they will get from the tax cut, the purchasing power of those dollars will be diminished as the result of inflation. Let me illustrate what I mean.

On page 181 of the report of the Committee on Finance on the pending bill is a table showing the impact of the tax cut on various brackets of income. In the case of an adjusted gross income of \$3,000, there would be no tax under present law and there would, of course, be no tax under the bill. Nevertheless, with the decline in purchasing power, in only 1 year, of 1½ percent, which is the record we are now operating under, and which will be the same, if not worse, in the years following, that taxpayer will suffer a loss of \$45. Thus that person will automatically be \$45 worse off in purchasing power under the continued inflation which the tax cut bill will produce.

The taxpayer in the \$4,000 adjusted gross income bracket would have a tax saving of \$40 under the bill, but the inflation in one year would eat up \$60 in purchasing power. So that individual would be on the loss side.

The taxpayer in the \$5,000 bracket would receive a \$80 tax cut, but \$75 would go out the window on a 1½-percent decline in the purchasing power of that person's money.

Some persons of course, will always benefit in an inflationary situation.

[P. 3410]

Under this tax bill, some persons will have more dollars and more purchasing power as a result of the tax cut than they will suffer in loss of purchasing power as a result of inflation.

For example, a person in the \$50,000 income bracket would receive a tax cut of \$2,037. A 1½-percent diminution in the purchasing power of \$50,000 would amount to \$750, so that person would get \$2,037 on the plus side, but only \$750 on the minus side.

In the \$100,000 bracket, a taxpayer under this bill would receive \$4,295 in additional purchasing power, but would suffer a loss of only \$1,500 in purchasing power as a result of a 1½-percent diminution in the value of all their dollars.

So persons in the high tax bracket will come out pretty well, but I do not think it is fair to calculate a tax bill on that basis. I have already said that millions of people in the poverty sector are the ones least able to afford an inflation tax.

Mr. President, I am using the figures of the President's Council of Economic Advisers, showing the record of the last 3 years. Judging by the past climate, we can expect another \$7 billion deficit, possibly more, during the next fiscal year. It will be more than that for the current fiscal year, and that means a 1½-percent decline in purchasing power, the purchasing power of the people's hard-earned money.

Mr. LONG of Louisiana. Mr. President, will the Senator yield?

Mr. MILLER. I am happy to yield to the Senator from Louisiana.

Mr. LONG of Louisiana. The point that the Senator from Iowa had in mind with regard to an anticipated 1½-percent inflationary reduction in purchasing power would assume that those persons do not make increased earnings. I am sure the Senator is aware of the belief that this \$11 billion tax reduction will create more consumer spending and will also provide an incentive to business to expand, modernize, and improve. The result will be that the \$11 billion tax reduction will be spent more than once. It will be spent over and over again, and this will generate much additional employment and production.

If that is the result and that is our hope—and I am sure the Senator from Iowa realizes that this is the economic argument in favor of the enactment of this measure—that those with incomes of \$3,000 will be able to find better jobs, with the result that their incomes will increase to perhaps \$5,000 or \$6,000, in which event they will become taxpayers.

Of course the principal benefit of that development would be, not the tax saving they might make, but the better jobs we hope they would have as a result of having private enterprise do this job—which some contend private enterprise can do much better than the Government could do.

The Senator from Iowa did not, I believe, hear the argument made by the Senator from Tennessee [Mr. GORE], which was that we should be increasing Federal Government expenditures, so as to put these people to work in Government projects. But the argument in favor of the enactment of this measure is that it will lead to an expansion of the economy and a resulting opportunity for private enterprise to provide increased production and increased employment.

Incidentally, in years gone by that theory was heard more from the Republican side of the aisle than from the Democratic side.

If we accept this theory in connection with the pending measure—and also on the ground of increasing consumption—then we should do so on the basis of helping those who now have low incomes to find better jobs which will give them increased incomes, and also on the basis of helping those now unemployed to find jobs.

We have no illusion that this measure will solve the entire problem; but we believe it will help solve it.

Mr. MILLER. Mr. President, the Senator from Louisiana has expressed very well the economic basis on which this tax measure is premised. I regret that I cannot agree. But since that expression has been made, I believe I should respond.

First of all, with respect to the Senator's point that the Republican side of the aisle has been the one chiefly favoring this type of approach, I say we certainly do, and I certainly do; and we go along with the Senator from Louisiana at least to some extent on the multiplier theory in connection with the proposed tax cut and the taking of this approach, provided one thing happens—although it never will happen under this measure, and this is one of the differences between the two parties—and that is that there be a stable dollar. Economists who have appeared before the Joint Economic Committee admit, when they are pinned down, that a tax cut must be premised on a stable dollar, if the tax cut is to be meaningful. In fact, one day I asked the Secretary of Commerce, "If we have a tax cut, and if someone who has been making \$5,000 a year ends up making \$5,200, as a result of the tax cut, but still has a purchasing power of only \$5,000, because all his dollars are worth less, as a result of the failure to have a stable dollar, what about that situation?"

He replied, "Of course then you are on dead center."

This is the problem. If we would have a stable dollar, I suppose this measure

would have been passed unanimously by the Senate. But we are not going to have a stable dollar if we continue to have multibillion-dollar deficits.

I recognize the application of the multiplier theory. The statistics for the last number of years show that the taxpayers spend about 90 or 92 cents of every dollar of their income after taxes, and that we can expect them to continue to do so, and that after this tax measure goes into effect, we can expect that 92 cents of every dollar of tax savings will be spent, and that, in turn, that will produce a profit for someone, and he will spend 92 cents of every dollar of his profits; and the economists tell us that, in terms of the final effect, from every \$1 of tax cut we can expect perhaps \$2 or \$3 or possibly \$4 of increased gross national product.

Of course there is disagreement over whether there should be a \$11 billion tax cut, because some say that if a \$11 billion tax cut will produce \$33 billion of increased gross national product, which the Senator from Louisiana and other proponents suggest will happen under the provisions of this measure, then why not have a \$22 billion tax cut, and thus have \$66 billion of increased gross national product?

I recognize that the multiplier theory has some validity; but it has no validity unless there is a stable dollar; and the fact is that we do not have, and will not have, a stable dollar; and I am laying my reputation on the line on that score.

As a matter of fact, Dr. Heller, after quite a bit of "tooth pulling," admitted that probably next year we shall have inflation to the extent of from \$5 to \$7 billion. When there is inflation in that amount in the United States, that amounts to a 1½-percent decline in the purchasing power of the dollar, or that is about the same as having—at least, in Iowa, for example—a hidden sales tax of about 2½ percent on the backs of the people who pay for the multibillion-dollar deficit spending operations of the Federal Government.

I do not have the figures for Louisiana; but as I recall the figures for Minnesota—and I see on the floor the distinguished senior Senator from Minnesota, the majority whip [Mr. HUMPHREY]—they are that \$7 billion of annual inflation amounts to a hidden sales tax of approximately 3 percent on the backs of the people of Minnesota.

This is what undercuts the beneficial effects of an income-tax cut when there is not a stable dollar.

I hope and pray that I am wrong, for all of us want the people to have prosperity and to have more purchasing power, so they can buy more of the better things of life.

But as sure as I am here today, within the next year we shall be presented with a request to increase social security pensions—why? Because we shall be told the poor pensioners cannot make ends meet, because all their dollars are worthless and their pensions have been decreasing in value every year; and it is clear that the value of their pensions will continue to fall as a result of the continuing multibillion dollar deficits, and they will continue that way as long as we insist on following the Pied Piper and his sophisticated school of economics.

As I have said, it is impossible to get something for nothing; and that includes spending in the multibillion dollar deficit area. The entire effect probably will not be felt too much until after the election this fall; but 3 years from now—just as when I first came to the Senate—it will be very clear that it is impossible to consider the effect of such measures without also considering their inflationary effect. I took that position when I first came to the Senate, 3 years ago; and I have taken that position ever since. I take it today; and I shall continue to do so. This is what is happening to the people of the United States; and I hope they wake up before it is too late.

[P. 3411]

Mr. LONG of Louisiana. Mr. President, I have before me a recent issue of the Economic Indicators; and it shows the prices in the last several years and the prices during the past year.

On wholesale prices, the index for 1958 was 100.4; and as of February 11, 1964, the index was 100.5. So for those 6 years we find an increase of one-tenth of 1 percent in the wholesale prices of all commodities—which speaks extremely well for the situation during the Eisenhower administration, the Kennedy administration, and thus far in the Johnson administration.

It is true that the showing is not that favorable when we consider retail prices. For retail prices, the economic indicators show 100.7 for 1958, as against 107.6 for December 1963—or an increase of about 1 percent a year, on the average. On the other hand, that increase is accounted for in part by the change in the quality of goods consumers buy. In other words, the consumers continue to receive better products, more attractive packaging, with the result that a considerable amount of the increase in the price index is not real. On the whole, the showing during the last 6 years—and I believe it speaks well for the administrations of two Democratic Presidents

and a Republican President—relative to prices, particularly at the wholesale level, reveals them to have been remarkably stable. I now yield to the Senator from Iowa.

Mr. MILLER. First, we are all interested in the fact that the wholesale price index has remained relatively stable in the past 5 years. That is exceedingly interesting. But 99 out of 100 American people buy at retail rather than wholesale. Retail prices are far more important. That is what counts. I am quite sure that if an escalation clause in one of the auto workers' contracts in Detroit is before the union and the management for consideration, and the union suggests that a wage increase under the escalation clause is in order, and management comes along and states, "But the wholesale price index has been stable," the point will not make much of an impression on the union leaders. They will say, "We are interested not in wholesale prices; we are interested in retail prices."

It may be that management will come back to the union leaders and say, "Oh, do not worry so much about the retail price index because you people are buying better quality things."

That statement will not deter the union people. They will say, "we are going by the retail price index. What we are interested in is the fact that the purchasing power of our hard-earned money is going down. The result is that the escalation clause requires you to increase our wages. If you do not, we will go on strike."

It is that simple. I recognize that people are getting better quality things. We certainly hope that the trend will continue. But what we are interested in is the purchasing power of our dollar. The purchasing power of the dollar is going down. For the past 2 or 3 years it has been going down 1½ percent a year.

The wholesale price index is fine. I hope that wholesale prices remain stable, for it may help to prevent the retail price index from going up more than it is going up. But what we are concerned about, I believe, is the stability of the dollar. Without a stable dollar—and I am talking about the purchasing power of the dollar—a tax cut will be only an empty gesture so far as the great bulk of the people of our country are concerned. After the tax measure is signed, their condition will be worse than it was before.

Mr. LONG of Louisiana. Mr. President, I know of no period in the history of America—certainly no time in the modern history of America—when during a similar period retail prices have remained more nearly steady than they

have for the past 6 years, except in a depression or a recession. I know the Senator would not wish to pay the price of a great number of people being out of work and the hardship that comes to Americans going through a depression or a deep recession. I invite the Senator to show me any similar period of prosperous times in which the Nation has had as steady a price level as we now have. I know of none.

Mr. MILLER. Mr. President, what I am interested in is current history, not ancient history. The Senator has said that the retail price index has not been going up too greatly, that the movement upward has not been too bad, that the decline of $1\frac{1}{2}$ percent per year in the purchasing power of our dollar is not too bad. That does not make it right.

I suggest to the Senator that a year from now—perhaps even during the present session—we shall be requested to increase social security pensions because the pensioners cannot make ends meet.

The situation is bad. I should like to cite an example. Back in 1940, a social security pensioner with a \$3,000-a-year earning base would have retired with a pension of \$499. The 1939 dollar would be considered worth 100 cents. The pension of the social security pensioner was worth \$499 in purchasing power.

Down through the years Congress has increased social security pensions, so that the same individual today would be receiving \$640 more than he would have received in 1940. But that does not mean that he would have \$640 of additional purchasing power. As a result of the inflation, he will have \$16 more purchasing power than he had before. The decline will be evident in another month or so when the value of the dollar is next published.

I wish to invite the attention of my friend from Louisiana to the publication "Economic Indicators." If he will look at page 2 and observe the gross national product figures on that page, he will find two columns. One column shows the gross national product increase, and the other column shows the gross national product increase in 1963 dollars. If the Senator will add up the increases, let us say, from 1960 to 1963 in the one column, he will come up to about \$100 billion. That shows an increase from \$500 billion to \$600 billion in gross national product in 3 years. But if the Senator will add up the figures in the other column, in terms of a stable dollar, he will find that the figure is about \$21 billion less. So instead of having a \$100 billion increase in gross national product, we have had only about a \$79 billion increased gross national product in terms of real dollars.

That is about one-fifth of our gross national product. Inflation, when it is that bad, is really meaningful, and we should be concerned about it. The unfortunate part of it is that if we would merely practice some fiscal integrity and come out with somewhere near a reasonably balanced budget, we would have a stable dollar, and these hardships would not overcome us.

Mr. LONG of Louisiana. Mr. President, the figures before me show that retail prices moved from 94.7 in 1956 to 98.0 in 1957. That was under President Eisenhower, and times were prosperous. That was more inflation than we have had during the 3 years of the Johnson and Kennedy administrations. Yet, notwithstanding a $3\frac{1}{3}$ percent inflation during that year, people were working. They were prosperous. People were happy. President Eisenhower received such an enormous vote that even the State of Louisiana voted for him. In fact, it caused me to lose face with my daughter. I had predicted that President Eisenhower would be elected but that he would not carry Louisiana.

If we can maintain our country as prosperous as we hope for it to be, I do not believe the people will be upset about inflation of 1 percent a year in retail prices, particularly when wholesale prices are stable. I have sometimes doubted whether it is possible to maintain the country as prosperous as the country should be without some small amount of increase in retail prices—approximately 1 percent a year.

Anyone who is in any part responsible for economic planning would have great difficulty in maintaining all items so stable that there would not be retail price rises of about 1 percent. If he held a tight rein, he might get the country into a recession on the downward side.

On the whole, I would judge that if we are able to maintain the kind of stability that we have seen for the past 6 years—and I will include 3 good Republican years and 3 good Democratic years—I do not believe the people will be upset. If we are able to have the kind of full employment that everyone hopes for in our great country—and the tax measure will contribute to it—my belief is that the people of the country will bless us, even if it is not possible to reduce taxes for those who do not pay any taxes whatever.

Mr. MILLER. Mr. President, this is where we differ in our economic philosophy. The Senator from Louisiana says that if we have full employment or prosperity, it makes no difference if we have 1-percent inflation, or a decline in the purchasing power of the people's money.

I do not believe in this doctrine. I do not believe that we must have a decline in the purchasing power of our people's money by 1 percent. I do not believe we must sneak around and,

[P. 3412]

through the hidden sales tax of inflation, deprive our older people, who are depending on Congress to maintain the full integrity of their money, of their purchasing power, in order to provide decent job opportunities. I do not know who is responsible for this idea. It certainly has not proved out.

We must put things in perspective. I recognize that when General Eisenhower was President we had the greatest peacetime deficit in the history of our country. I have carefully refrained from calling these deficits Johnson deficits or Kennedy deficits, because when we get down to the nub of the matter, it is not the President or the executive branch of the Government that does the appropriating. It is the Congress which does it.

My friend from Louisiana, who has been a Member of the Senate for a good many years, knows that the Democrats were in control of the Senate and the House of Representatives during the period he referred to a few moments ago, just as they are in control of the Congress today. It is bad enough when Congress is in control at a time of economic philosophy that inflation is the way to prosperity, but it makes it much tougher when both the legislative and executive branches are in the control of those people.

I recognize that there are two economic schools of thought. One is the sophisticated economic school to which I have just referred; the other is the classic school, which I favor. I hope the sophisticated economic school of thought works, but it has not been working very well. We still have a deeply serious unemployment; and a part of the reason is that we do not have a stable dollar. Of course, it would have been worse if the dollar had gone down even more in value. That does not mean it has not gone down badly enough.

As I have said, an inflation of \$7 billion is equivalent to a 2½ percent sales tax on the backs of the people of my State. If the legislature of my State proposed to pass a bill providing for an increase in our State sales tax by 2½ percent for the purpose of helping finance the deficit spending programs of the Federal Government, the people would throw out of office about every one of them. It is high time some of us started pointing out what is happening to them, instead of trying to tease them. That is all I am

trying to do. If people are given the facts, and then they say, "This is for us," that is it. If public opinion wants to support the sophisticated school of thought, it is the privilege of our people to do so. But it behooves those of us who believe differently to do our utmost to let the people know what the facts are before they make the choice.

[February 26, 1964]

[P. 3679]

REVENUE ACT OF 1964—TAX REDUCTION

Mr. SMATHERS. Mr. President, the tax bill is, in my opinion, the most significant tax legislation Congress has considered since the income tax was first enacted 51 years ago, in 1913. The bill provides for the greatest tax reduction in our history.

It is significant to note that although the Senate made 100 substantive amendments in the House version of the bill, there was no disagreement whatsoever between the two Houses as to the size of the tax rate reduction or its distribution.

The House and the Senate were in complete agreement on this most important segment of the tax bill. Both versions grant a reduction in tax liability estimated at \$11.7 billion in the calendar year 1965—\$9.5 billion of this rate reduction goes to individuals, and \$2.2 billion to corporations. The calendar year 1964 reductions due to rate changes are \$6.3 billion for individuals and \$1.3 billion for corporations.

The House and Senate were also in agreement on the acceleration of corporation tax payments. This speedup of corporation tax payments, while not affecting corporate tax liability, is estimated to result in an increase of \$260 million of tax receipts to the Treasury in the fiscal year 1964. In the fiscal year 1965 this provision is estimated to provide a \$900 million offset to the \$1.3 billion reduction in Treasury tax receipts from corporations, due to rate reduction.

The Senate withholding date and rate were adopted by the conferees, because of the necessity to gear to the date of enactment the changes in withholding. Thus, the withholding rate is 14 percent, instead of 15 percent; and the new rate becomes effective for remuneration paid after the seventh day following the signing of the bill by the President.

When the structural changes and changes in capital gains and losses are taken into account, along with the re-

duction in tax rates, the total net tax reduction in 1965 amounts to \$11.5 billion, as agreed to by the conferees. The House version total was \$11.2 billion, and the Senate version total was \$11.9 billion. As agreed to by the conferees, \$9.1 billion of the net reduction will go to individuals, and \$2.4 billion to corporations.

The bill as agreed to by the conferees, in short, recognizes that the forces of consumer demand and investment stimulus are mutually reinforcing, and that their interaction will provide our economy with a strength that neither would offer alone.

This is a fair bill in terms of the distribution of individual tax reductions among the various income groups.

Eighty-five percent of American taxpayers earn \$10,000 or less. These people, who now carry 50 percent of the tax load, will receive 60 percent of the benefits under the bill.

Taxpayers in the bottom income group—those earning \$3,000 or less—will get three times the percentage tax reduction of those in the top of the income group, earning \$50,000 up.

However, the benefits of this tax cut will not be limited to the direct and immediate dollar benefits that will go to taxpayers as a result of the cut itself. As consumer purchasing power is increased, it will provide a vital and immediate stimulus to our economy.

A higher level of economic activity will benefit those who are working, by increasing the opportunities for advancement. Even more important, the bill will benefit the 4 million Americans who now are jobless—because only with a higher level of production and demand can we expect our economy to generate the millions of additional jobs that will be needed each year in the years ahead.

A major goal of the entire tax program is the provision of more jobs. At present, an estimated 1 million jobs annually are lost, due to automation. A million more will be required each year, to meet the needs of new workers entering the labor market.

It is impossible to predict with accuracy exactly how many jobs will be produced as a result of the tax cut; but it has been estimated that when the reductions are fully effective, up to 3 million additional new jobs will be available each year. These are new jobs—jobs that do not exist today, jobs that could not be created under today's reluctant economic atmosphere. These are jobs that are vital to our Nation's youth, to our Nation's older people, and to our Nation's workers, consumers, and families.

The tax program will help fight the war on poverty. It will help partly because as more jobs are provided, there [P. 3680]

will be a greater chance that those now jobless can find work. It is a measure which will benefit all taxpayers.

Mr. President, the bill will breathe new life into our private economy.

The bill will give our economy new weapons and new responsibilities to help it move with maximum momentum far closer to its enormous gross national product potential.

The bill will contribute much to the solution of our most pressing economic problems—unemployment and persistent deficits in our budget and in our international balance-of-payments account.

The bill offers the promise of restoring a balanced budget by 1967 or 1968. It would accomplish this largely through expansion of the private sector of our economy, as the restraining shackles of high tax rates are loosened. In this respect, the bill expresses a vote of confidence in the American free enterprise system.

American business supports the tax cut. The American people are overwhelmingly in support of a tax cut immediately. A recent Louis Harris survey indicated that the public favors an immediate tax reduction by an overwhelming majority—better than 2 to 1.

If our free enterprise system is to maintain this country as the first among nations both militarily and economically, let us get on with the job of assuring that our economy makes a maximum contribution to that effort. Let us free our private economy from the restraining tax burdens which now hold it back. This bill will do it.

The bill as agreed to by the conferees is in the best national interest. Yesterday, it received the overwhelming approval of the House of Representatives. Today, it merits—and I am sure it will receive—the overwhelming approval of the Senate of the United States.

I urge approval of the conference report.

Mr. President, it has been my privilege to have participated as a Senate conferee in several conferences on various phases of legislation; but never before have I sat in a conference in which it seemed to me that each of the House conferees and each of the Senate conferees was so highly motivated by, and responsible to, his duties, in trying to adjust the differences between the House and the Senate versions. I congratulate both the House conferees and the Senate conferees.

I also congratulate the junior Senator from Louisiana [Mr. LONG], who not only guided the bill through the Finance Committee, but also led it during the Senate debate and quarterbacked its passage by the Senate, and also did a magnificent job in the conference in adjusting the differences between the House and the Senate versions. To him goes a great deal of credit. Not only has he demonstrated great capacity in this field; in addition, he fully entered into the problems involved, and did so with a thoroughness which is to be greatly admired. He completely accepted his responsibilities and duties, and rendered an outstanding service in every respect.

Mr. President, I have a number of newspaper editorials which refer to the outstanding service the Senator from Louisiana performed in connection with the tax bill. I ask unanimous consent that the editorials be printed in the RECORD.

There being no objection, the editorials were ordered to be printed in the RECORD, as follows:

[From the Philadelphia (Pa.) Inquirer, Feb. 16, 1964]

A LEGISLATIVE ARTIST AT WORK: HOW SENATOR LONG ENGINEERED THE TAX BILL TO VICTORY
(By Jerome S. Cahill)

WASHINGTON.—When the \$11.6 billion tax reduction bill goes to the White House soon to be signed into law, Senator RUSSELL B. LONG, Democrat, of Louisiana, will have special reason for satisfaction.

As floor manager of the bill, the chunky Louisianian with the rapier wit steered the measure virtually unscathed through the Senate, past a host of amendments which could have brought hopes for the tax reduction crashing.

More than 150 proposed changes were fought off during the bill's hectic 7 days on the Senate floor. Observers, awed by LONG's defensive skill in protecting the measure, likened him to Andy Robustelli of the New York Giants.

Interviewed last week as Senate-House conferees initiated talks designed to iron out differences and bring the measure back to both Houses for final passage in the next few days, the Senator said he looked back upon his experience as might a novice fisherman.

CAUGHT A WHALE

Noting that his first attempt at the floor managership of a major piece of revenue legislation involved the biggest tax reduction in the country's history, he said:

"I got my baptism with a whopper—like a kid who has gone fishing for the first time and caught a whale," he said.

Landing his whale required 7 legislative working days for LONG, from January 31 when the Senate took up the bill, until February 7 when the measure finally passed by a vote of 77 to 21. Years of experience went into those 7 days, however.

"I think the best training I had," the Sen-

ator said with a grin, "was my experience in being 'on the attack,' of trying to amend somebody else's revenue and foreign aid bills in years gone by."

LONG found himself trying to forecast his adversaries' tactics—and then trying to outmaneuver them with a combination of procedural expertise, persuasion, tact, and humor.

ONE MAJOR DEFEAT

Only on one major issue was he unsuccessful, the 47-to-41 vote on February 3 that approved Senator ALBERT GORE's, Democrat, of Tennessee, amendment to curtail tax benefits enjoyed by Americans living abroad.

The defeat came early in debate, and LONG frankly admits, "It scared me to lose on the first day like that."

He explained that psychology is important on the floor of the Senate. Adversaries have been known to exploit the success of an initial amendment into a roller coaster ride of changes that have radically altered the pending bill.

Three close votes the following day went LONG's way, however. A college tuition tax plan by Senator ABRAHAM A. RIBICOFF, Democrat, of Connecticut, was defeated 48 to 45, and a companion proposal by Senator WINSTON L. PROUTY, Republican, of Vermont, to help working students, died in a 47-to-47 deadlock.

Then a compromise by Senator EVERETT M. DIRKSEN, Republican, of Illinois, to place a \$300 ceiling on the 4-percent credit on dividend income was rejected 47 to 44, and on the following day, another Dirksen proposal, to repeal excise taxes on jewelry, luggage, and toilet preparations, went down 48 to 25.

On each of these votes, LONG did his best to make sure that as many Senators as possible were on the floor to hear both sides in the debate. He said that, contrary to popular belief, Senators often haven't made up their minds by the time a bill reaches the floor and can be swayed by a persuasive argument.

A DUAL PURPOSE

"I don't care how much lobbying has gone on," he said. "I think a majority will go to the side that carries the debate."

Helping to smooth the way was LONG's tactful acknowledgment of the problems faced by his colleagues.

On a number of occasions, he accepted minor amendments, promising to "take them to conference." The unspoken understanding was the amendments would be dropped if the House conferees objected.

And on the final day of debate, half a dozen amendments were withdrawn after LONG, speaking for the Finance Committee, promised to give the proposals further consideration and study in a more appropriate forum.

Such courtesies serve a dual purpose. They enable a Senator to show his constituents that a pet bill, while rejected, made some progress. And they encourage the Senator, in return, to vote the administration's line, even though it may be unpopular.

"This is something you almost have to do," said LONG. "When, in some instances, a Senator has gone the political limit for you, you give him a break when you can."

On several occasions, LONG unlimbered his fabled sense of humor in defense of the tax bill. The biggest laughs came when he went to work on an amendment proposed by Senator JOHN L. MCCLELLAN, Democrat, of Arkansas.

LONG and other administration speakers stressed the same theme in the debate—that however attractive each amendment might be, nothing should be permitted to threaten the ultimate prospects of the tax bill itself.

The tuition tax credit plan, for example, was difficult for many Senators to vote against. LONG got the votes he needed by pinpointing the high cost (\$1.3 billion ultimately), and by arguing that an alternate plan of tuition loans could accomplish the same goal at less than half the price.

In beating back DIRKSEN's proposal to repeal retail excise taxes, LONG argued against opening a Pandora's box that could cost the U.S. Treasury \$5 to \$10 billion. He noted that a congressional review of the excise tax question would be held later in the year.

The debate turned out well for his side, but the lineup of administration supporters remained fluid on a number of close votes.

"That's one of the things that made it difficult," said LONG. "I never knew who I would have with me. On one vote, a Senator would be with me, and on the next he would be on the other side."

The amendment provided that individual and corporate tax rate reductions embodied in the bill would be rescinded if Federal expenditures exceeded \$100 billion a year in coming fiscal years.

Well now, said LONG, the amendment would in effect require the Senate Finance Committee to tell the Appropriations Committee not to spend so much money. But the Appropriations Committee is composed of experts in their own field.

Was he, under the amendment, supposed to tell CARL HAYDEN, Democrat, of Arizona, committee chairman, or RICHARD B. RUSSELL, Democrat, of Georgia, how to conduct their affairs? LONG waxed incredulous.

"I go to him for advice rather than he coming to me," he said of RUSSELL, to laughter.

[P. 3681]

The Senator ticked off such other committee seniors as ALLEN J. ELLENDER, Democrat, of Louisiana, and LISTER HILL, Democrat of Alabama, also Senate veterans.

"Read down the list," he commanded.

Then, as other Senators grinned in anticipation, LONG did so, a note of triumph in his voice. "Next we have the distinguished Senator from Arkansas [Mr. MCCLELLAN]."

There was more laughter.

LONG has the Chamber in convulsions as he explained that his only advice to MCCLELLAN could be "let your conscience be your guide," and as he spelled out the possible implications of the amendment—a tax increase instead of a reduction.

"How do Senators like that as a disappointment?" he asked.

"The taxpayer would be holding his sack out, waiting for a tax cut. What do Senators think he would get? A tax increase."

LONG's logic prevailed. The McClellan amendment was rejected, 61 to 34.

The Louisianian regards humor as a powerful weapon in floor debate, but one that is potentially dangerous.

"Sometimes it's easier to destroy an amendment with humor than serious argument," he said. "If something can be made to look ridiculous, it won't pass."

INSULTS AVOIDED

On the other hand, humor can make enemies, and LONG was careful, during the tax bill debate, to avoid jibes that might have been interpreted by a contending Senator as a personal insult. On at least one occasion, he refrained from joking about an amendment because he knew it would hold its author up to serious ridicule.

Senator HARRY F. BYRD, Democrat of Virginia, chairman of the Finance Committee, did not support the tax bill and for that reason LONG, as second-ranking Democrat on the panel, drew the assignment.

However, LONG credits the chairman with important contributions toward the bill's safe passage, specifically, BYRD's vote against the Ribicoff and Prouty amendments, and against the Dirksen excise repealer. Each of those proposals was defeated by three votes or less.

"And Senator BYRD is always good for more votes than just HARRY BYRD's," LONG said. He said the Virginia Senator's vote probably influenced a couple or three other Senators to vote in the same way.

In the final hours of debate on the tax bill, Minority Leader DIRKSEN sent a letter to the floor from his hospital bed, where he was under treatment for a stomach ulcer. He complained that pressure from the White House—he called it "that new White House telephonic half nelson known as the Texas twist"—was responsible for defeating some of the amendments.

In reply, LONG said that while White House aids Larry O'Brien and Mike Manatos helped "where they could" with head counts, "I don't know of a single instance where President Johnson called a Senator direct on this bill."

UNSUNG HERO

The Senator said that if anyone should be characterized the unsung hero of the bill's passage through the Senate, that person should be Henry H. Fowler, Under Secretary of the Treasury.

Throughout the debate, Fowler was available at the Capitol or on the telephone to answer questions and to lend his persuasiveness to the administration's position, LONG pointed out.

The Senator also credited staff members of the congressional taxation committees who provided him with material with which to answer queries that came up during the floor debate.

After the bill finally passed, Mr. Johnson delayed his flight to Texas to extend personal congratulations to LONG.

And on the Senate floor, Senator WILLIAM PROXMIRE, Democrat, of Wisconsin, summed up the feeling of Senators who went up against LONG with amendments—and lost.

"The Senator from Louisiana not only made this monstrous tax bill appear good enough to win the votes of an overwhelming majority of Senators," PROXMIRE said. "He made those of us who fought it to the bitter end and suffered defeat grudgingly enjoy seeing an obvious legislative artist in action."

[From the Philadelphia (Pa.) Inquirer,
Feb. 16, 1964]

MAN IN THE NEWS

RUSSELL BILLIE LONG was barely 4 days over the constitutional minimum age of 30 for the U.S. Senate when he was first elected, in 1948, to fill a vacancy in that body where his father, Huey Pierce Long, the "Kingfish," had served so flamboyantly until his assassination in September 1935.

Now a mature 45, he still represents the populist ideals that made his father the undisputed political boss of Louisiana. He also resembles his father in his ability to keep the Senate convulsed in laughter but it is doubtful whether anyone ever conferred upon the elder Long the accolade earned by the son for his management of the tax reduction bill now awaiting the President's signature: "a legislative artist."

It was an honor won by a diligent apprenticeship in politics. By his own account, RUSSELL LONG's approach to legislation in general is that "what is good for Louisiana is good for the country." On most economic issues he takes the liberal side but defends his State's interests such as oil and gas, sugar, rice, cotton and dairying.

On medicare, which is about to come before Congress again, he has favored "reasonable" measures to help the aged. But, he once said flatly, "I don't think the Federal Government ought to be taxing us to pay medical bills for people who are perfectly well able to pay for it themselves."

In civil rights, LONG has argued against "forced integration" or efforts to "regulate prejudice" and has protested the use of Federal power to force the enrollment of Negro students in previously white universities.

As the son of a man who made filibuster history in the Senate in the 1930's, RUSSELL LONG has called the Senate's power of unlimited debate "One of our most precious heritages." In his maiden speech in the Senate in 1949, he hailed it as a weapon that protected minorities from "some oppressive group grinding them to dust."

That, too, is an issue of immediate importance, since the Senate is about to consider the civil rights bill recently passed by House.

It's only fair to point out that LONG has used the same weapon in behalf of so-called liberal causes. Most recently, he joined filibusterers in 1962, to oppose a bill which authorized the creation of a privately held communications satellite corporation.

LONG entered Louisiana State University the year his father was shot to death, in deference to the older man's wishes. (He had wanted to attend Princeton.) As an undergraduate he was not an outstanding student but he stood third in his law school class.

During wartime service in the Navy he rose from seaman apprentice to lieutenant

and won four battle stars while commanding landing craft in the invasions of north Africa, Sicily, Anzio and southern France.

He entered State politics in 1948 to help his uncle, Earl Long, win the governorship. Later the same year he was elected to the Senate to fill an unexpired term and has served there continuously since.

He acquired wide legislative experience on these committees: Armed Service, Foreign Relations, Interior and Insular Affairs, Banking and Currency, Post Office and Civil Service, Rules and Administration, and Government Operations. Upon the death of the late Senator Robert S. Kerr, Democrat, of Oklahoma, he became second-ranking Democrat on the Finance Committee, which handles such matters as taxes, welfare programs, social security and tariffs.

In foreign policy, LONG has voted against foreign aid bills for a number of years on the grounds that the program is wasteful and that money often goes to the wrong countries.

His wife is the former Katherine Mae Hattic; they have two daughters, Rita Katherine and Pamela Rust.

Writers frequently comment on RUSSELL LONG's strong physical resemblance to his father and on the similarity of their voices and mannerisms.

One of his objectives has long been to get his father "a fair hearing."

"He had many human faults," he once admitted, "but everything he did was intended to help the common people and the poor."

[From the Washington (D.C.) Post, Feb. 21,
1964]

THE CONFERENCE'S TAX BILL

Senator RUSSELL B. LONG, who effectively guided the tax bill through the Senate, accurately characterized the work of the House-Senate conferees when he said that, "I think the committee saved the best of both Houses and left out the worst of both Houses."

No difficulty was anticipated in obtaining the assent of the House Members to the immediate reduction of the withholding tax rates from 18 to 14 percent. That was the most important difference between the two bills, and it has happily been resolved by adopting the version which the administration had urged upon the Senate.

Many of the reforms which the administration proposed were rejected or severely attenuated by the tax writing committees, and yet it would not be fair to say that the conference bill is devoid of efforts to eliminate the glaring inequities.

The 4-percent tax credit on dividends, ostensibly enacted to reduce double taxation, will be repealed after this year. Minimum standard deductions are increased to eliminate an unconscionable burden on those in the lowest income class: a married couple with two children earning \$3,000 will pay no income tax. The rules governing stock options have been tightened. And while the mineral depletion allowance loopholes will remain open, a technical change governing the definition of operating units in the gas and oil industries will raise an additional \$40 million.

But the most significant victory was achieved in beating back a capital gains provision which would have made the tax system far more inequitable than it now is. The Senate refused to adopt the complex provisions of the House bill which would have reduced the maximum rates on long-term capital gains from 25 to 21 percent while failing to tax the unrealized gains on bequeathed assets. Once again the conferees upheld the administration by rejecting the capital-gains tax reduction, giving ground on the relatively minor issue of a more liberal rule for the carrying forward of capital losses against future tax liabilities.

Counsels of perfection should not be invoked in appraising legislation which is fashioned in the jungle of conflicting interest groups. With a clearer administration strategy from the outset, Congress might have completed its work in less than 14 months or it might have been persuaded to write a more equitable bill. But these shortcomings are overshadowed by the largest tax reduction in modern history, one that is sufficient to provide a powerful stimulus to the growth of income and employment.

[P. 3682]

Mr. MANSFIELD. Mr. President, I commend the distinguished junior Senator from Florida [Mr. SMATHERS] for his statement, and join in his commendations of the distinguished junior Senator from Louisiana [Mr. LONG], who rendered an outstanding and truly magnificent service in handling the tax bill on the floor of the Senate. Much credit likewise goes to his able lieutenants, the Senator from Florida [Mr. SMATHERS] and the Senator from New Mexico [Mr. ANDERSON].

In addition, credit should go to Senators who were opposed to the bill, because they cooperated, even though they were not in favor of the bill, and they gave the leadership every bit of assistance they could, despite the views they personally held.

[P. 3687]

REVENUE ACT OF 1964— CONFERENCE REPORT

Mr. CURTIS. Mr. President, the Senate is about to consider the conference report on the tax measure. While I cannot support the tax bill on the ground that we are increasing the national debt by reducing taxes, I believe that every Senator has an obligation to make the bill as good as possible. It is my opinion that if we are to reduce revenues by \$11 billion, the retail excise taxes should be abolished. Those are a harassment to merchants, whether they be druggists, jewelers, department store owners and operators, or others.

I especially wish to express regret that the provision adopted by the Senate in

reference to political contributions did not prevail in conference. The Senate version of the bill provided that a political contribution up to \$50 per person or \$100 per couple would be treated as a deduction for purposes of individual income tax computation. That would have been a great step toward better government. It would have encouraged political giving to candidates and parties and to political causes on a very broad base. It would have lessened the dependence in political campaigns upon pressure groups, individuals with considerable sums of money, and those individuals who might have some particular ulterior and selfish motives involved.

If we were to examine a list of organizations, a contribution to which would permit a tax deduction, we would find that it would cover a broad scope. They include various organizations for kind treatment to animals and various types of educational and philanthropic causes. No doubt all or most of them are very worthy.

But there are few causes more worthy than the cause of good government. Individual citizens should be encouraged to work in the party of their choice. They should be encouraged to contribute to it. The modest amount involved would have prevented dependence for political financing upon groups that should not be turned to for such assistance.

The ACTING PRESIDENT pro tempore. The time of the Senator from Nebraska has expired. A 87-2

[P. 3556]

REVENUE ACT OF 1964— CONFERENCE REPORT

The Senate resumed the consideration of the report of the committee of conference on the disagreeing votes of the two Houses on the amendments of the Senate to the bill (H.R. 8363) to amend the Internal Revenue Code of 1954 to reduce individual and corporate income taxes, to make certain structural changes with respect to the income tax, and for other purposes.

Mr. MANSFIELD. Mr. President, a parliamentary inquiry.

The ACTING PRESIDENT pro tempore. The Senator from Montana will state it.

Mr. MANSFIELD. On the basis of the agreement entered into yesterday, the question now is on agreeing to the conference report?

The ACTING PRESIDENT pro tempore. The Senator is correct. The question is on agreeing to the conference report, but the yeas and nays have not yet been ordered.

Mr. MANSFIELD. Mr. President, I ask for the yeas and nays.

The yeas and nays were ordered.

The ACTING PRESIDENT pro tempore. The question is on agreeing to the conference report. On this question the yeas and nays have been ordered; and the clerk will call the roll.

The legislative clerk proceeded to call the roll.

Mrs. NEUBERGER (after having voted in the negative). Mr. President, on this vote I have a pair with the Senator from Utah [Mr. Moss]. If he were present and voting, he would vote "yea." If I were at liberty to vote, I would vote "nay." I therefore withdraw my vote.

Mr. HUMPHREY. I announce that the Senator from New Mexico [Mr. ANDERSON], the Senator from Michigan [Mr. HART], and the Senator from Utah [Mr. Moss] are absent on official business.

I further announce that, if present and voting, the Senator from Michigan [Mr. HART] would vote "yea."

Mr. KUCHEL. I announce that the Senator from New Hampshire [Mr. COTTON], the Senator from Arizona [Mr. GOLDWATER], and the Senator from Nebraska [Mr. HRUSKA] are necessarily absent.

On this vote, the Senator from New Hampshire [Mr. COTTON] is paired with the Senator from Arizona [Mr. GOLDWATER]. If present and voting, the Senator from New Hampshire would vote "yea" and the Senator from Arizona would vote "nay."

If present and voting, the Senator from Nebraska [Mr. HRUSKA] would vote "nay."

The result was announced—yeas 74, nays 19, as follows:

[No. 44 Leg.]

YEAS—74

Allott	Hartke	Morse
Bartlett	Hayden	Morton
Bayh	Hill	Mundt
Beall	Holland	Muskie
Bible	Humphrey	Nelson
Boggs	Inouye	Pastore
Brewster	Jackson	Pearson
Burdick	Javits	Pell
Byrd, W. Va.	Johnston	Prouty
Cannon	Jordan, N.C.	Randolph
Carlson	Jordan, Idaho	Ribicoff
Case	Keating	Robertson
Church	Kennedy	Saltonstall
Clark	Kuchel	Scott
Cooper	Long, Mo.	Smathers
Dirksen	Long, La.	Smith
Dodd	Magnuson	Sparkman
Dominick	Mansfield	Symington
Douglas	McCarthy	Talmadge
Eastland	McGee	Walters
Edmondson	McGovern	Williams, N.J.
Engle	McIntyre	Yarborough
Fong	McNamara	Young, N. Dak.
Fulbright	Metcalf	Young, Ohio
Gruening	Monroney	

NAYS—19

Aiken	Hickenlooper	Simpson
Bennett	Lausche	Stennis
Byrd, Va.	McClellan	Thurmond
Curtis	Mechem	Tower
Ellender	Miller	Williams, Del.
Ervin	Proxmire	
Gore	Russell	

NOT VOTING—7

Anderson	Hart	Moss
Cotton	Hruska	Neuberger
Goldwater		

So the conference report was agreed to.

Mr. MANSFIELD. Mr. President, I move to reconsider the vote by which the conference report was agreed to.

Mr. LONG of Louisiana. Mr. President, I move to lay that motion on the table.

The motion to lay on the table was agreed to.

[P. 3499]

MESSAGE FROM THE SENATE

A message from the Senate by Mr. Arrington, one of its clerks, announced that the Senate agrees to the report of the committee of conference on the disagreeing votes of the two Houses on the amendments of the Senate to the bill (H.R. 8363) entitled "An act to amend the Internal Revenue Code of 1954 to reduce individual and corporate income taxes, to make certain structural changes with respect to the income tax, and for other purposes."

The message also announced that the President pro tempore had appointed Mr. CLARK, Mr. PELL, Mr. HICKENLOOPER, and Mr. CARLSON to be members of the U.S. delegation to the 18-Nation Conference of Arms Control and Disarmament Agency, Geneva, Switzerland.

The message further announced that the President pro tempore, pursuant to title 46, United States Code, section 1126c, had appointed Mr. NELSON to be a member of the Board of Visitors to the U.S. Merchant Marine Academy.

[P. 3740]

MESSAGE FROM THE HOUSE— ENROLLED BILL SIGNED

A message from the House of Representatives, by Mr. Bartlett, one of its reading clerks, announced that the Speaker had affixed his signature to the enrolled bill (H.R. 8363) to amend the Internal Revenue Code of 1954 to reduce individual and corporate income taxes, to make certain structural changes with respect to the income tax, and for other purposes, and it was signed by the President pro tempore.

Tax Reduction Now a Reality

EXTENSION OF REMARKS

OF

HON. WILLIAM L. ST. ONGE

OF CONNECTICUT

IN THE HOUSE OF REPRESENTATIVES

Wednesday, February 26, 1964

Mr. ST. ONGE. Mr. Speaker, the tax reduction is now a reality and Congress deserves much credit for it. Under leave to extend my remarks, I wish to insert into the RECORD the text of a brief statement regarding the tax-reduction bill which I issued soon after it cleared both houses of Congress.

The statement is as follows:

I am very pleased to learn that the \$11.5 billion tax reduction bill, the largest tax cut in the Nation's history, has finally been passed by Congress.

This legislation will provide a much needed tax cut on both individual income and cor-

porate income to benefit all taxpayers. The
[P. 3774]

tax reduction will be translated into an immediate decrease for the average citizen in the amount of money to be withheld from his weekly paycheck. This means that the purchasing power of all will be increased.

The tax cut voted by Congress will add greater strength to the Nation's economy and will help to increase production and reduce unemployment.

Throughout my campaign for Congress 2 years ago, I vigorously advocated a tax cut for the people. My theory at the time was that a tax cut would stimulate the U.S. economy to the extent that it would increase the output of goods and services by many billions of dollars and that this would, in turn, expand the economy and provide more tax revenue to make up the loss to the Government. This is now about to become a reality.

I feel proud that my pledge to the people of eastern Connecticut has been upheld and that my views on the need for a cut in taxes have been reaffirmed by Congress.

APPENDIX

4239

REVENUE ESTIMATES RELATING TO
THE HOUSE, SENATE, AND CONFERENCE
VERSIONS OF H.R. 8363, THE REVENUE BILL
OF 1964

PREPARED FOR THE USE OF
THE SENATE COMMITTEE ON FINANCE AND THE
HOUSE COMMITTEE ON WAYS AND MEANS

BY THE STAFF OF THE
JOINT COMMITTEE ON
INTERNAL REVENUE TAXATION



FEBRUARY 21, 1964

U.S. GOVERNMENT PRINTING OFFICE
WASHINGTON : 1964

CONTENTS

Table 1. Estimated decrease and increase in <i>tax liability</i> of provisions of bill; calendar years 1964 and 1965 and long run; <i>individual, corporation, and total</i> .	Page
A. As Approved by the Conference.....	2
B. As Passed by the Senate.....	4
C. As Passed by House of Representatives.....	6
Table 2. Estimated decrease and increase in <i>fiscal year receipts</i> of provisions of bill; fiscal years 1964 and 1965; <i>individual, corporation, and total</i> .	
A. As Approved by the Conference.....	8
B. As Passed by the Senate.....	10
C. As Passed by House of Representatives.....	12
Table 3. Estimated decrease and increase in <i>tax liability</i> of provisions of bill as passed by the <i>House of Representatives</i> , as passed by the <i>Senate</i> , and as approved by the <i>Conference</i> , calendar years 1964 and 1965 and long run.....	14
Table 4. Estimated decrease and increase in <i>fiscal year receipts</i> of provisions of bill as passed by the <i>House of Representatives</i> , as passed by the <i>Senate</i> , and as approved by the <i>Conference</i> , fiscal years 1964 and 1965....	16
Table 5. <i>Action by Senate</i> resulting in significant change in <i>tax liability</i> over <i>House bill</i> , calendar years 1964 and 1965 and long run.....	18
Table 6. <i>Action by Senate</i> resulting in significant change in <i>tax receipts</i> over <i>House bill</i> , fiscal years 1964 and 1965.....	18
Table 7. <i>Action by Conference</i> resulting in significant change in <i>tax liability</i> over <i>House bill</i> and <i>Senate bill</i> , calendar years 1964 and 1965 and long run.....	19
Table 8. <i>Action by Conference</i> resulting in significant change in <i>tax receipts</i> over <i>House bill</i> and <i>Senate bill</i> , fiscal years 1964 and 1965.....	20
Table 9. <i>Corporate income tax liability</i> under present law and under H.R. 8363, calendar year corporations with <i>selected levels of income</i> , calendar years 1964 and 1965.....	21
Table 10. <i>Distribution by adjusted gross income class</i> of the full year effect of <i>rate and structural changes</i> affecting individuals.	
A. As Approved by the Conference.....	22
B. As Passed by the Senate.....	23
C. As Passed by House of Representatives.....	24
Table 11. <i>Distribution by adjusted gross income class</i> of the full year effect of <i>rate changes</i> and of <i>each of the structural changes</i> affecting individuals.	
A. As Approved by the Conference.....	25
B. As Passed by the Senate.....	26
C. As Passed by the House of Representatives.....	27
Table 12. <i>Individual income tax liability</i> under present law and under H.R. 8363; <i>selected income levels</i> ; calendar years 1964 and 1965.	
A. Single person with standard deduction.....	28
B. Married couple with no dependents, with standard deduction....	29
C. Married couple with two dependents; with standard deduction...	30
D. Head of household with one dependent, with standard deduction...	31

TABLE 1.—Revenue bill of 1964, H.R. 8363—Estimated decrease (—) and increase (+) in tax liability¹ of provisions of bill

A. AS APPROVED BY THE CONFERENCE (FEB. 19, 1964)

[In millions of dollars]

	Calendar year 1964 liability			Calendar year 1965 liability			Longrun liability		
	Individ- ual	Corpo- ration	Total	Individ- ual	Corpo- ration	Total	Individ- ual	Corpo- ration	Total
A. 1963-64 tax program:									
Rate changes (basic rates)	-6,310	-1,320	-7,630	-9,470	-2,190	-11,660	-9,470	-2,190	-11,660
Structural changes:									
(a) Revenue raising:									
1. Group term insurance	+5		+5	+5		+5	+5		+5
2. Bank loan insurance	+5		+5	+5		+5	+10		+10
3. Sick pay exclusion	+65		+65	+65		+65	+65		+65
4. Deduction of personal taxes	+300		+300	+300		+300	+300		+300
5. Casualty loss deduction	+50		+50	+50		+50	+50		+50
6. Aggregation of mineral properties		+40	+40		+40	+40		+40	+40
7. Personal holding companies	+15		+15	+15		+15	+15		+15
8. Repeal of dividend credit and increase in exclusion	+120		+120	+300		+300	+300		+300
9. Multiple corporation penalty tax		+35	+35		+35	+35		+35	+35
10. Exclusion of foreign earned income				(2)		(2)	(2)		(2)
Total, revenue raising	+560	+75	+635	+740	+75	+815	+745	+75	+820
(b) Revenue reducing:									
11. Medical expense deduction	-10		-10	-10		-10	-10		-10
12. Child care allowance	-15		-15	-15		-15	-15		-15
13. Moving expenses	-60		-60	-60		-60	-60		-60
14. Income averaging	-40		-40	-40		-40	-40		-40
15. Minimum standard deduction	-320		-320	-320		-320	-320		-320
16. Repeal of 2-percent tax on consolidated returns ²		-55	-55		-55	-55		-55	-55
17. Installment sales treatment		4 -100	-100		-5	-5		-5	-5
18. Expropriation loss carryover		(2)	(2)		-5	-5		-5	-5
19. Retirement income credit	-10		-10	-10		-10	-10		-10
Total, revenue reducing	-455	-155	-610	-455	-65	-520	-455	-65	-520
Total, structural changes	+105	-80	+25	+285	+10	+295	+290	+10	+300
Total, rate and structural changes, 1963-64, tax program	-6,205	-1,400	-7,605	-9,185	-2,180	-11,365	-9,180	-2,180	-11,360

Capital gains revisions (including induced effects):											
1. Unlocking of capital gains from general rate reduction.....	+130	(2)		+130	+5		+130	+50		+15	+50
2. Sale or exchange of real estate.....							+5				+15
3. Carryover of losses.....	-30			-30			-30	-30			-30
4. Sales of residences by taxpayers aged 65 or over.....	-10			-10			-10	-10			-10
5. Capital gains treatment of iron ore royalties.....		-5			-5		-5			-5	-5
Total, capital gains revisions.....	+90	-5		+90			+90	+10		+10	+20
Total, 1963-64 tax program.....	-6, 115	-1, 405		-9, 095	-2, 180		-11, 275	-9, 170		-2, 170	-11, 340
B. Revision of 1962 legislation:											
1. Repeal of requirement to reduce basis by investment credit.....	-20	-140		-25	-170		-195	-25		-170	-195
2. Allow investment credit for elevators and escalators.....		-10			-10		-10			-10	-10
3. Elimination of allocation of travel expenses.....	(2)			(2)			(2)	(2)			(2)
Total, revision of 1962 legislation.....	-20	-150		-25	-180		-205	-25		-180	-205
C. Total, revenue bill of 1964.....	-6, 135	-1, 555		-9, 120	-2, 360		-11, 480	-9, 195		-2, 350	-11, 545

Revenue Taxation is \$245,000,000 for 1964, \$305,000,000 for 1965, and \$435,000,000 for the long run (1968).

¹ At levels of income estimated for the calendar year 1963 without feedback.

² Less than \$2,500,000.

³ Including 100-percent intercorporate dividend deduction for certain affiliated groups.

⁴ Includes relatively small amount attributable to individuals.

⁵ Treasury Department estimate; estimate of staff of Joint Committee on Internal Revenue Taxation is higher, because of the investment credit basis provision, by \$85,000,000 for 1964, by \$110,000,000 for 1965, and by \$240,000,000 for the long run (1968).

TABLE 1.—Revenue bill of 1964, H.R. 8363—Estimated decrease (–) and increase (+) in tax liability¹ of provisions of bill—Continued

B. AS PASSED BY THE SENATE (FEB. 7, 1964)

[In millions of dollars]

	Calendar year 1964 liability			Calendar year 1965 liability			Longrun liability		
	Indiv- ual	Corpo- ration	Total	Indiv- ual	Corpo- ration	Total	Indiv- ual	Corpo- ration	Total
A. 1963-64 tax program:									
Rate changes (basic rates)	-6, 310	-1, 320	-7, 630	-9, 470	-2, 190	-11, 660	-9, 470	-2, 190	-11, 660
Structural changes:									
(a) Revenue raising:	(2)		(2)	(2)		(2)	(2)		(2)
1. Group term insurance.....	+5		+5	+5		+5	+10		+10
2. Bank loan insurance.....	+55		+55	+55		+55	+55		+55
3. Sick pay exclusion.....	+190		+190	+190		+190	+190		+190
4. Deduction of personal taxes.....	+50		+50	+50		+50	+50		+50
5. Casualty loss deduction.....		+40	+40		+40	+40		+40	+40
6. Aggregation of mineral properties.....	+15		+15	+15		+15	+15		+15
7. Personal holding companies.....	+120		+120	+300		+300	+300		+300
8. Repeal of dividend credit and increase in exclusion.....		+35	+35		+35	+35		+35	+35
9. Multiple corporation penalty tax.....	+10		+10	+10		+10	+10		+10
10. Exclusion of foreign earned income.....									
Total, revenue raising.....	+445	+75	+520	+625	+75	+700	+630	+75	+705
(b) Revenue reducing:									
11. Medical expense deduction.....	-10		-10	-10		-10	-10		-10
12. Child care allowance.....	-20		-20	-20		-20	-20		-20
13. Moving expenses.....	-105		-105	-105		-105	-105		-105
14. Income averaging.....	-40		-40	-40		-40	-40		-40
15. Minimum standard deduction.....	-320		-320	-320		-320	-320		-320
16. Repeal of 2-percent tax on consolidated returns ²		-55	-55		-55	-55		-55	-55
17. Political contributions.....	-25		-25	-5		-5	-15		-15
18. Installment sales treatment.....		-140	-140		-10	-10		-10	-10
19. Expropriation loss carryover.....		(2)	(2)		-5	-5		-5	-5
20. Retirement income credit.....	-10		-10	-10		-10	-10		-10
21. Extension of head-of-household status.....	-20		-20	-20		-20	-20		-20
22. Extra exemption and transportation expense for disabled.....	-185		-185	-185		-185	-185		-185

	-25	-25	-715	-30	-815	-----	-50	-50
23. Double investment credit for facilities to control pollution.....								
Total, revenue reducing.....	-735	-220	-955	-100	-815	-725	-120	-845
Total, structural changes.....	-290	-145	-435	-25	-115	-95	-45	-140
Total, rate and structural changes, 1963-64, tax program.....	-6,600	-1,465	-8,065	-2,215	-11,775	-9,565	-2,235	-11,800
Capital gains revisions (including induced effects):								
1. Unlocking of capital gains from general rate reduction.....	+130	(²)	+130	-----	+130	+50	-----	+50
2. Sale or exchange of real estate.....	-10	-----	-10	+5	+5	-----	+15	+15
3. Sales of residences by taxpayers aged 65 or over.....	-10	-----	-10	-----	-10	-10	-----	-10
4. Capital gains treatment of iron ore royalties.....	-5	-5	-5	-5	-5	-----	-5	-5
Total, capital gains revisions.....	+120	-5	+115	-----	+120	+40	+10	+50
Total, 1963-64 tax program.....	-6,480	-1,470	-7,950	-2,215	-11,655	-9,525	-2,225	-11,750
B. Revision of 1962 legislation:								
1. Repeal of requirement to reduce basis by investment credit.....	-20	-140	\$ -160	-170	\$ -195	-25	-170	\$ -195
2. Allow investment credit for elevators and escalators.....	-----	-10	-10	-10	-10	-----	-10	-10
3. Elimination of allocation of travel expenses.....	-5	-----	-5	-----	-5	-5	-----	-5
Total, revision of 1962 legislation.....	-25	-150	\$ -175	-180	\$ -210	-30	-180	\$ -210
C. Total, revenue bill of 1964.....	-6,505	-1,620	\$ -8,125	-2,395	\$ -11,865	-9,555	-2,405	\$ -11,960

¹ At levels of income estimated for the calendar year 1963 without feedback.

² Less than \$2,500,000.

3 Includes 100-percent intercorporate dividend deduction for certain affiliated groups.
4 Includes relatively small amount attributable to individuals.

⁶ Treasury Department estimate; estimate of staff of Joint Committee on Internal

Revenue Taxation is \$245,000,000 for 1964, \$305,000,000 for 1965, and \$435,000,000 for the long run (1968).

⁶ Treasury Department estimate; estimate of staff of Joint Committee on Internal Revenue (1966).

Revenue Taxation is higher, because of the investment credit basis provision, by \$85,000,000 for 1964, by \$110,000,000 for 1965, and by \$240,000,000 for the long run (1968).

TABLE 1.—Revenue bill of 1964, H.R. 8363—Estimated decrease (—) and increase (+) in tax liability¹ of provisions of bill—Continued

C. AS PASSED BY HOUSE OF REPRESENTATIVES (SEPT. 25, 1963)

[In millions of dollars]

	Calendar year 1964 liability			Calendar year 1965 liability		
	Individual	Corporation	Total	Individual	Corporation	Total
A. 1963-64 tax program:						
Rate changes (basic rates).....	-6,310	-1,320	-7,630	-9,470	-2,190	-11,660
Structural changes:						
(a) Revenue raising:						
1. Group term insurance.....	+5	-----	+5	+5	-----	+5
2. Bank loan insurance.....	+5	-----	+5	+5	-----	+5
3. Sick pay exclusion.....	+110	-----	+110	+110	-----	+110
4. Deduction of personal taxes.....	+520	-----	+520	+520	-----	+520
5. Casualty loss deduction.....	+50	-----	+50	+50	-----	+50
6. Aggregation of mineral properties.....	-----	+40	+40	-----	+40	+40
7. Personal holding companies.....	+15	-----	+15	+15	-----	+15
8. Repeal of dividend credit and increase in exclusion.....	+120	-----	+120	+300	-----	+300
9. Multiple corporation penalty tax.....	-----	+35	+35	-----	+35	+35
Total, revenue raising.....	+825	+75	+900	+1,005	+75	+1,080
(b) Revenue reducing:						
10. Medical expense deduction.....	-10	-----	-10	-10	-----	-10
11. Child care allowance.....	-5	-----	-5	-5	-----	-5
12. Moving expenses.....	-60	-----	-60	-60	-----	-60
13. Income averaging.....	-40	-----	-40	-40	-----	-40
14. Minimum standard deduction.....	-320	-----	-320	-320	-----	-320
15. Repeal of 2-percent tax on consolidated returns.....	-----	-50	-50	-----	-50	-50
Total, revenue reducing.....	-435	-50	-485	-435	-50	-485
Total, structural changes.....	+390	+25	+415	+570	+25	+595
Total, rate and structural changes 1963-64 tax program.....	-5,920	-1,295	-7,215	-8,900	-2,165	-11,065
Capital gains revision (including induced effects):						
1. 50- to 40-percent inclusion ²	+340	-----	+340	+210	-----	+210
2. Sale or exchange of real estate.....	-----	(3)	(3)	-----	+5	+5
3. Carryover of losses.....	-30	-----	-30	-30	-----	-30
4. Sales of residences by taxpayers aged 65 or over.....	-10	-----	-10	-10	-----	-10

5. Capital gains treatment of iron ore royalties.....	-----	-----	-----	-----	-----	-----	-----	-----	-----
Total, capital gains revision.....	-----	-----	-----	-----	-----	-----	-----	-----	-----
Total, 1963-64 tax program.....	-----	-----	-----	-----	-----	-----	-----	-----	-----
B. Revision of 1962 legislation:	-----	-----	-----	-----	-----	-----	-----	-----	-----
1. Repeal of requirement to reduce basis by investment credit.....	-----	-----	-----	-----	-----	-----	-----	-----	-----
2. Allow investment credit for elevators and escalators.....	-----	-----	-----	-----	-----	-----	-----	-----	-----
Total, revision of 1962 legislation.....	-----	-----	-----	-----	-----	-----	-----	-----	-----
O. Total, revenue bill of 1964.....	-----	-----	-----	-----	-----	-----	-----	-----	-----

1 At levels of income estimated for the calendar year 1963 without feedback; as set forth in the report of the Committee on Ways and Means.

2 Includes amounts shown in part A as "unlocking due to general rate reduction."

3 Less than \$2,500,000.

4 Treasury Department estimate; estimate of staff of Joint Committee on Internal Revenue Taxation is \$245,000,000 for 1964, and \$305,000,000 for 1965.

5 Treasury Department estimate; estimate of staff of Joint Committee on Internal Revenue Taxation is higher, because of the investment credit basis provision, by \$100,000,000 for 1964 and by \$120,000,000 for 1965.

TABLE 2.—Revenue bill of 1964, H.R. 8363—Estimated decrease (–) and increase (+) in fiscal year receipts¹ of provisions of bill
A. AS APPROVED BY THE CONFERENCE (FEB. 19, 1964)
[In millions of dollars]

	Fiscal year 1964 receipts			Fiscal year 1965 receipts		
	Individual	Corporation	Total	Individual	Corporation	Total
A. 1963–64 tax program:						
Rate changes:						
Basic rates.....	–1, 900	.....	–1, 900	–8, 060	–1, 320	–9, 380
Acceleration of corporation tax payments.....	.....	+260	+260	.....	+900	+900
Total, rate changes.....	–1, 900	+260	–1, 640	–8, 060	–420	–8, 480
Structural changes:						
(a) Revenue raising:						
1. Group term insurance.....	.....	.....	.....	+5	.....	+5
2. Bank loan insurance.....	.....	.....	.....	+5	.....	+5
3. Sick pay exclusion.....	.....	.....	.....	+65	.....	+65
4. Deduction of personal taxes.....	.....	.....	.....	+300	.....	+300
5. Casualty loss deduction.....	.....	.....	.....	+50	.....	+50
6. Aggregation of mineral properties.....	.....	.....	.....	.....	+40	+40
7. Personal holding companies.....	.....	.....	.....	+15	.....	+15
8. Repeal of dividend credit and increase in exclusion.....	.....	.....	.....	+120	.....	+120
9. Multiple corporation penalty tax.....	.....	.....	.....	.....	+35	+35
10. Exclusion of foreign earned income.....	.....	.....	.....	.....	.....	.....
Total, revenue raising.....	.....	.....	.....	+560	+75	+635
(b) Revenue reducing:						
11. Medical expense deduction.....	.....	.....	.....	–10	.....	–10
12. Child care allowance.....	.....	.....	.....	–15	.....	–15
13. Moving expenses.....	.....	.....	.....	–60	.....	–60
14. Income averaging.....	.....	.....	.....	–40	.....	–40
15. Minimum standard deduction.....	.....	.....	.....	–320	.....	–320
16. Repeal of 2-percent tax on consolidated returns ³.....	.....	.....	.....	.....	–55	–55
17. Installment sales treatment.....	.....	.....	.....	.....	4	4
18. Expropriation loss carryover.....	.....	.....	.....	.....	(2)	(2)

19. Retirement income credit.....	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----
-----------------------------------	-------	-------	-------	-------	-------	-------	-------	-------	-------	-------	-------	-------	-------	-------	-------	-------	-------	-------	-------	-------	-------	-------	-------	-------	-------	-------	-------	-------	-------	-------	-------	-------	-------	-------	-------	-------	-------	-------	-------	-------	-------	-------	-------	-------	-------	-------	-------	-------	-------	-------	-------	-------	-------	-------	-------	-------	-------	-------	-------	-------	-------	-------	-------	-------	-------	-------	-------	-------	-------	-------	-------	-------	-------	-------	-------	-------	-------	-------	-------	-------	-------	-------	-------	-------	-------	-------	-------	-------	-------	-------	-------	-------	-------	-------	-------	-------	-------	-------	-------	-------	-------	-------	-------	-------	-------	-------	-------	-------	-------	-------	-------	-------	-------	-------	-------	-------	-------	-------	-------	-------	-------	-------	-------	-------	-------	-------	-------	-------	-------	-------	-------	-------	-------	-------	-------	-------	-------	-------	-------	-------	-------	-------	-------	-------	-------	-------	-------	-------	-------	-------	-------	-------	-------	-------	-------	-------	-------	-------	-------	-------	-------	-------	-------	-------	-------	-------	-------	-------	-------	-------	-------	-------	-------	-------	-------	-------	-------	-------	-------	-------	-------	-------	-------	-------	-------	-------	-------	-------	-------	-------	-------	-------	-------	-------	-------	-------	-------	-------	-------	-------	-------	-------	-------	-------	-------	-------	-------	-------	-------	-------	-------	-------	-------	-------	-------	-------	-------	-------	-------	-------	-------	-------	-------	-------	-------	-------	-------	-------	-------	-------	-------	-------	-------	-------	-------	-------	-------	-------	-------	-------	-------	-------	-------	-------	-------	-------	-------	-------	-------	-------	-------	-------	-------	-------	-------	-------	-------	-------	-------	-------	-------	-------	-------	-------	-------	-------	-------	-------	-------	-------	-------	-------	-------	-------	-------	-------	-------	-------	-------	-------	-------	-------	-------	-------	-------	-------	-------	-------	-------	-------	-------	-------	-------	-------	-------	-------	-------	-------	-------	-------	-------	-------	-------	-------	-------	-------	-------	-------	-------	-------	-------	-------	-------	-------	-------	-------	-------	-------	-------	-------	-------	-------	-------	-------	-------	-------	-------	-------	-------	-------	-------	-------	-------	-------	-------	-------	-------	-------	-------	-------	-------	-------	-------	-------	-------	-------	-------	-------	-------	-------	-------	-------	-------	-------	-------	-------	-------	-------	-------	-------	-------	-------	-------	-------	-------	-------	-------	-------	-------	-------	-------	-------	-------	-------	-------	-------	-------	-------	-------	-------	-------	-------	-------	-------	-------	-------	-------	-------	-------	-------	-------	-------	-------	-------	-------	-------	-------	-------	-------	-------	-------	-------	-------	-------	-------	-------	-------	-------	-------	-------	-------	-------	-------	-------	-------	-------	-------	-------	-------	-------	-------	-------	-------	-------	-------	-------	-------	-------	-------	-------	-------	-------	-------	-------	-------	-------	-------	-------	-------	-------	-------	-------	-------	-------	-------	-------	-------	-------	-------	-------	-------	-------	-------	-------	-------	-------	-------	-------	-------	-------	-------	-------	-------	-------	-------	-------	-------	-------	-------	-------	-------	-------	-------	-------	-------	-------	-------	-------	-------	-------	-------	-------	-------	-------	-------	-------	-------	-------	-------	-------	-------	-------	-------	-------	-------	-------	-------	-------	-------	-------	-------	-------	-------	-------	-------	-------	-------	-------	-------	-------	-------	-------	-------	-------	-------	-------	-------	-------	-------	-------	-------	-------	-------	-------	-------	-------	-------	-------	-------	-------	-------	-------	-------	-------	-------	-------	-------	-------	-------	-------	-------	-------	-------	-------	-------	-------	-------	-------	-------	-------	-------	-------	-------	-------	-------	-------	-------	-------	-------	-------	-------	-------	-------	-------	-------	-------	-------	-------	-------	-------	-------	-------	-------	-------	-------	-------	-------	-------	-------	-------	-------	-------	-------	-------	-------	-------	-------	-------	-------	-------	-------	-------	-------	-------	-------	-------	-------	-------	-------	-------	-------	-------	-------	-------	-------	-------	-------	-------	-------	-------	-------	-------	-------	-------	-------	-------	-------	-------	-------	-------	-------	-------	-------	-------	-------	-------	-------	-------	-------	-------	-------	-------	-------	-------	-------	-------	-------	-------	-------	-------	-------	-------	-------	-------	-------	-------	-------	-------	-------	-------	-------	-------	-------	-------	-------	-------	-------	-------	-------	-------	-------	-------	-------	-------	-------	-------	-------	-------	-------	-------	-------	-------	-------	-------	-------	-------	-------	-------	-------	-------	-------	-------	-------	-------	-------	-------	-------	-------	-------	-------	-------	-------	-------	-------	-------	-------	-------	-------	-------	-------	-------	-------	-------	-------	-------	-------	-------	-------	-------	-------	-------	-------	-------	-------	-------	-------	-------	-------	-------	-------	-------	-------	-------	-------	-------	-------	-------	-------	-------	-------	-------	-------	-------	-------	-------	-------	-------	-------	-------	-------	-------	-------	-------	-------	-------	-------	-------	-------	-------	-------	-------	-------	-------	-------	-------	-------	-------	-------	-------	-------	-------	-------	-------	-------	-------	-------	-------	-------	-------	-------	-------	-------	-------	-------	-------	-------	-------	-------	-------	-------	-------	-------	-------	-------	-------	-------	-------	-------	-------	-------	-------	-------	-------	-------	-------	-------	-------	-------	-------	-------	-------	-------	-------	-------	-------	-------	-------	-------	-------	-------	-------	-------	-------	-------	-------	-------	-------	-------	-------	-------	-------	-------	-------	-------	-------	-------	-------	-------	-------	-------	-------	-------	-------	-------	-------	-------	-------	-------	-------	-------	-------	-------	-------	-------	-------	-------	-------	-------	-------	-------	-------	-------	-------	-------	-------	-------	-------	-------	-------	-------	-------	-------	-------	-------	-------	-------	-------	-------	-------	-------	-------	-------	-------	-------	-------	-------	-------	-------	-------	-------	-------

¹ At levels of income estimated for the calendar year 1963 without feedback. Assumes effective date for withholding change of Mar. 8, 1964.

² Less than \$2,500,000.

3 Including 100-percent intercorporate dividend deduction for certain affiliated groups.

Includes relatively small amount attributable to individuals.

* Treasury Department estimate; estimate of staff of Joint Committee on Internal Revenue Taxation is \$245,000,000.

Revenue Taxation is \$240,000,000.

Revenue Taxation is higher by \$85,000,000 because of the investment credit basis provision.

TABLE 2.—Revenue bill of 1964, H.R. 8363—Estimated decrease (—) and increase (+) in fiscal year receipts¹ of provisions of bill—Con.
B. AS PASSED BY THE SENATE (FEB. 7, 1964)

[In millions of dollars]

	Fiscal year 1964 receipts			Fiscal year 1965 receipts		
	Individual	Corporation	Total	Individual	Corporation	Total
A. 1963-64 tax program:						
Rate changes:						
Basic rates	-1,900	+260	-1,900 +260	-8,060	-1,320 +900	-9,380 +900
Acceleration of corporation tax payments						
Total, rate changes	-1,900	+260	-1,640	-8,060	-420	-8,480
Structural changes:						
(a) Revenue raising:				(2)		(2)
1. Group term insurance				+5		+5
2. Bank loan insurance				+55		+55
3. Sick pay exclusion				+190		+190
4. Deduction of personal taxes				+50		+50
5. Casualty loss deduction					+40	+40
6. Aggregation of mineral properties						+15
7. Personal holding companies				+15		+15
8. Repeal of dividend credit and increase in exclusion				+120		+120
9. Multiple corporation penalty tax					+35	+35
10. Exclusion of foreign earned income				+10		+10
Total, revenue raising				+445	+75	+520
(b) Revenue reducing:						
11. Medical expense deduction				-10		-10
12. Child care allowance				-20		-20
13. Moving expenses				-105		-105
14. Income averaging				-40		-40
15. Minimum standard deduction				-320	-55	-320 -55
16. Repeal of 2-percent tax on consolidated returns ³				-25		-25
17. Political contributions					4 -140 (2)	-140 (2)
18. Installment sales treatment						
19. Expropriation loss carryover				-10		-10
20. Retirement income credit				-20		-20
21. Extension of head-of-household status				-185		-185
22. Extra exemption and transportation expense for disabled						

23. Double investment credit for facilities to control pollution.....																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																													
---	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--

¹ At levels of income estimated for the calendar year 1963 without feedback. Assumes effective date for withholding change of Mar. 8, 1964.

2 Less than \$2,500,000.

³ Including 100-percent intercorporate dividend deduction for certain affiliated groups;

⁴ Includes relatively small amount attributable to individuals,

3 Treasury Department estimate; estimate of staff of Joint Committee on Internal Revenue Taxation is \$245,000,000.

* Treasury Department estimate; estimate of staff of Joint Committee on Internal Revenue Taxation is higher by \$85,000,000 because of the investment credit basis provision.

TABLE 2.—Revenue bill of 1964, H.R. 8363—Estimated decrease (—) and increase (+) in fiscal year receipts¹ of provisions of bill—Continued

O. AS PASSED BY HOUSE OF REPRESENTATIVES (SEPT. 25, 1963)

	Fiscal year 1964 receipts			Fiscal year 1965 receipts		
	Individual	Corporation	Total	Individual	Corporation	Total
A. 1963-64 tax program:						
Rate changes (basic rates).....	-2,430	+260	-2,430	-7,530	-1,320	-8,850
Acceleration of corporation tax payments.....					+900	+900
Total, rate changes.....	-2,430	+260	-2,170	-7,530	-420	-7,950
Structural changes:						
(a) Revenue raising:						
1. Group term insurance.....				+5		+5
2. Bank loan insurance.....				+5		+5
3. Sick pay exclusion.....				+110		+110
4. Deduction of personal taxes.....				+520		+520
5. Casualty loss deduction.....				+50		+50
6. Aggregation of mineral properties.....					+40	+40
7. Personal holding companies.....				+15		+15
8. Repeal of dividend credit and increase in exclusion.....				+120		+120
9. Multiple corporation penalty tax.....					+35	+35
Total, revenue raising.....				+825	+75	+900
(b) Revenue reducing:						
10. Medical expense deduction.....				-10		-10
11. Child care allowance.....				-5		-5
12. Moving expenses.....				-60		-60
13. Income averaging.....				-40		-40
14. Minimum standard deduction.....				-320		-320
15. Repeal of 2-percent tax on consolidated returns.....					-50	-50
Total, revenue reducing.....				-435	-50	-485
Total, structural changes.....				+390	+25	+415
Total, rate and structural changes, 1963-64 tax program.....	-2,430	+260	-2,170	-7,140	-395	-7,535

[In millions of dollars]

Capital gains revision (including induced effects):							
1. 50 to 40 percent inclusion ¹						+340	(3) +340
2. Sale or exchange of real estate						-30	-30
3. Carryover of losses						-10	-10
4. Sales of residences by taxpayers aged 65 or over						-5	-5
5. Capital gains treatment of iron ore royalties							
Total, capital gains revision						+300	+295
Total, 1963-64 tax program	-2,430	+260	-2,170	-6,840	-400	-7,240	
B. Revision of 1962 legislation:							
1. Repeal of requirement to reduce basis by investment credit		-15	-15	-20	-125	4 -145	
2. Allowing investment credit for elevators and escalators		-5	-5	-5	-10	-10	
Total, revision of 1962 legislation		-20	-20	-20	-135	5 -155	
C. Total, revenue bill of 1964	-2,430	+240	-2,190	-6,860	-535	6 -7,395	

¹ At levels of income estimated for the calendar year 1963 without feedback; as set forth in the report of the Committee on Ways and Means.
² Includes amounts shown in pt. A as "unlocking due to general rate reduction."
³ Less than \$2,500,000.
⁴ Treasury Department estimate; estimate of staff of Joint Committee on Internal Revenue Taxation is \$245,000,000.

⁵ Treasury Department estimate; estimate of staff of Joint Committee on Internal Revenue Taxation is higher by \$100,000,000 because of the investment credit basis provision.

TABLE 3.—Revenue bill of 1964, H.R. 8363—Estimated decrease (—) and increase (+) in tax liability¹ of provisions of bill as passed by the House of Representatives, as passed by the Senate, and as approved by the Conference, calendar years 1964 and 1965 and long run

[In millions of dollars]

	Calendar year 1964 liability			Calendar year 1965 liability			Long-run liability		
	As passed by the House of Representatives	As passed by the Senate	As approved by the Conference	As passed by the House of Representatives	As passed by the Senate	As approved by the Conference	As passed by the House of Representatives	As passed by the Senate	As approved by the Conference
A. 1963-64 tax program:									
Rate changes (basic rates):									
Individual.....	-6,310	-6,310	-6,310	-9,470	-9,470	-9,470	-9,470	-9,470	-9,470
Corporation.....	-1,320	-1,320	-1,320	-2,190	-2,190	-2,190	-2,190	-2,190	-2,190
Total, rate changes.....	-7,630	-7,630	-7,630	-11,660	-11,660	-11,660	-11,660	-11,660	-11,660
Structural changes:									
(a) Revenue raising:									
1. Group term insurance.....	+5	(2)	+5	+5	(2)	+5	+5	(2)	+5
2. Bank loan insurance.....	+5	+5	+5	+5	+5	+5	+5	+5	+5
3. Sick pay exclusion.....	+110	+55	+65	+110	+55	+110	+110	+55	+65
4. Deduction of personal taxes.....	+520	+190	+300	+520	+190	+300	+520	+190	+300
5. Casualty loss deduction.....	+50	+50	+50	+50	+50	+50	+50	+50	+50
6. Aggregation of mineral properties.....	+40	+40	+40	+40	+40	+40	+40	+40	+40
7. Personal holding companies.....	+15	+15	+15	+15	+15	+15	+15	+15	+15
8. Repeal of dividend credit and increase in exclusion.....	+120	+120	+120	+300	+300	+300	+300	+300	+300
9. Multiple corporation penalty tax.....	+35	+35	+35	+35	+35	+35	+35	+35	+35
10. Exclusion of foreign earned income.....	+10	+10	+10	-----	-----	(2)	-----	+10	(2)
Total, revenue raising.....	+900	+520	+635	+1,080	+700	+815	+1,085	+705	+820
(b) Revenue reducing:									
11. Medical expense deduction.....	-10	-10	-10	-10	-10	-10	-10	-10	-10
12. Child care allowance.....	-5	-20	-15	-5	-20	-15	-5	-20	-15
13. Moving expenses.....	-60	-105	-60	-60	-105	-60	-60	-105	-60
14. Income averaging.....	-40	-40	-40	-40	-40	-40	-40	-40	-40
15. Minimum standard deduction.....	-320	-320	-320	-320	-320	-320	-320	-320	-320
16. Repeal of 2-percent tax on consolidated returns.....	-50	3 -55	3 -55	-50	3 -55	3 -55	-50	3 -55	3 -55
17. Political contributions.....	-----	-25	-25	-----	-5	-5	-----	-15	-5
18. Installment sales treatment.....	-----	-140	-100	-----	-10	-5	-----	-10	-5
19. Expropriation loss carryover.....	-----	(2)	(2)	-----	-5	-5	-----	-5	-5
20. Retirement income credit.....	-----	-10	-10	-----	-10	-10	-----	-10	-10
21. Extension of head-of-household status.....	-----	-20	-20	-----	-20	-20	-----	-20	-20

TABLE 4.—Revenue bill of 1964, H.R. 8363—Estimated decrease (—) and increase (+) in fiscal year receipts¹ of provisions of bill as passed by the House of Representatives, as passed by the Senate, and as approved by the Conference, fiscal years 1964 and 1965

[In millions of dollars]

	Fiscal year 1964 receipts			Fiscal year 1965 receipts		
	As passed by the House of Representatives	As passed by the Senate	As approved by the Conference	As passed by the House of Representatives	As passed by the Senate	As approved by the Conference
A. 1963-64 tax program:						
Rate changes:						
Individual (basic rates).....	-2,430	2 -1,900	2 -1,900	-7,530	2 -8,060	2 -8,060
Corporation (basic rates).....	+260	+260	+260	-1,320	-1,320	-1,320
Corporation (acceleration of tax payments).....	+260	+260	+260	+900	+900	+900
Total, corporation.....	+260	+260	+260	-420	-420	-420
Total, rate changes.....	-2,170	-1,640	-1,640	-7,950	-8,480	-8,480
Structural changes:						
(a) Revenue raising:						
1. Group term insurance.....				+5	+5	+5
2. Bank loan insurance.....				+5	+5	+5
3. Sick pay exclusion.....				+110	+55	+65
4. Deduction of personal taxes.....				+520	+190	+300
5. Casualty loss deduction.....				+50	+50	+50
6. Aggregation of mineral properties.....				+40	+40	+40
7. Personal holding companies.....				+15	+15	+15
8. Repeal of dividend credit and increase in exclusion.....				+120	+120	+120
9. Multiple corporation penalty tax.....				+35	+35	+35
10. Exclusion of foreign earned income.....					+10	(3)
Total, revenue raising.....				+900	+520	+635
(b) Revenue reducing:						
11. Medical expense deduction.....				-10	-10	-10
12. Child care allowance.....				-5	-20	-15
13. Moving expenses.....				-60	-105	-60
14. Income averaging.....				-40	-40	-40
15. Minimum standard deduction.....				-320	-320	-320
16. Repeal of 2-percent tax on consolidated returns.....				-50	4 -55	4 -55
17. Political contributions.....					-25	
18. Installment sales treatment.....					-140	-100
19. Expropriation loss carryover.....					(3)	(3)
20. Retirement income credit.....					-10	-10
21. Extension of head-of-household status.....					-20	

[illegible]

¹ At levels of income estimated for calendar year 1963 without feedback.

² Assumes effective date for withholding change of Mar. 8, 1964.

³ Less than \$2,500,000.

⁴ Includes 100-percent intercorporate dividend deduction for certain affiliated groups.

3 Revised; estimate in Ways and Means Committee report, combining this item with

“unlocking” was \$340,000,000.

^a Treasury Department estimate revised from estimate of \$145,000,000 in Ways and Means Committee report; estimate of staff of Joint Committee on Internal Revenue Taxation is \$245,000,000.

Taxation is \$245,000,000.
 Treasury Department estimate; estimate of staff of Joint Committee on Internal Revenue Taxation is higher by \$85,000,000 because of the investment credit basis provision.

TABLE 5.—*Action by Senate on H.R. 8363 resulting in significant change in tax liability over House bill, calendar years 1964 and 1965 and long run*

[In millions of dollars]

Action by Senate	Change in tax liability from House bill		
	1964	1965	Long run
1. Deduction for political contributions.....	-25	-5	¹ -15
2. Liberalized deduction for child care expense.....	-15	-15	-15
3. Elimination of allocation of travel expenses.....	-5	-5	-5
4. 100 percent intercorporate dividend deduction for certain affiliated groups.....	-5	-5	-5
5. Restoration of deduction of State and local gas tax and auto registration fees.....	-330	-330	-330
6. Allowance to reimbursed employee, as part of sales price, of selling costs and loss on forced sale of house.....	-45	-45	-45
7. Elimination of general capital gains provision ²	-100	+40	+260
8. Allowance of installment sales treatment for revolving credit plans.....	-140	-10	-10
9. Permitting election of 10-year carryforward without carryback for expropriation losses.....	(3)	-5	³ -5
10. Increasing from \$30,000 to \$70,000 the maximum group-term life insurance not subject to tax.....	-5	-5	-5
11. Liberalization of retirement income credit on certain joint returns.....	-10	-10	-10
12. Liberalization of restriction on sick-pay exclusion.....	-55	-55	-55
13. Reduction of exclusion of foreign earned income.....	+10	+10	+10
14. Extension of head-of-household status.....	-20	-20	-20
15. Extra exemption and transportation expenses for disabled.....	-185	-185	-185
16. Double investment credit for facilities to control pollution.....	-25	-30	-50
Total.....	-955	-675	-485

¹ \$25,000,000 for presidential election year; 50 percent of that amount for congressional election year and 25 percent for off year; average about \$15,000,000 per year.

² These differences are based on revised estimates of effect of House action.

³ Less than \$2,500,000 in 1964 and practically exhausted by 1970.

TABLE 6.—*Action by Senate on H.R. 8363 resulting in significant change in tax receipts over House bill, fiscal years 1964 and 1965*

[In millions of dollars]

Action by Senate	Change in tax receipts from House bill	
	Fiscal year 1964	Fiscal year 1965
1. Deduction for political contributions.....		-25
2. Liberalized deduction for child care expense.....		-15
3. Elimination of allocation of travel expenses.....	(1)	-5
4. 100 percent intercorporate dividend deduction for certain affiliated groups.....		-5
5. Restoration of deduction of State and local gas tax and auto registration fees.....		-330
6. Allowance to reimbursed employee, as part of sales price, of selling costs and loss on forced sale of house.....		-45
7. Elimination of general capital gains provision.....		² -100
8. Allowance of installment sales treatment for revolving credit plans.....		-140
9. Permitting election of 10-year carryforward without carryback for expropriation losses.....		(1)
10. Increasing from \$30,000 to \$70,000 the maximum group-term life insurance not subject to tax.....		-5
11. Liberalization of retirement income credit on certain joint returns.....		-10
12. Liberalization of restriction on sick-pay exclusion.....		-55
13. Reduction of exclusion of foreign earned income.....		+10
14. Extension of head-of-household status.....		-20
15. Extra exemption and transportation expenses for disabled.....		-185
16. Double investment credit for facilities to control pollution.....		-25
17. Postponed termination of 18-percent withholding rate and advanced initiation of 14-percent rate.....	³ +530	³ -530
18. Postponement of repeal of basis adjustment under the investment credit.....	+15	
Total.....	+545	-1,485

¹ Less than \$2,500,000.

² This difference is based on revised estimate of effect of House action.

³ Assumes effective date for withholding change of Mar. 8, 1964.

TABLE 7.—Action by Conference on H.R. 8363 resulting in significant change in tax liability over House bill and Senate bill, calendar years 1964 and 1965 and long run

[In millions of dollars]

Action by Conference	Change in tax liability					
	From House bill			From Senate bill		
	1964	1965	Long run	1964	1965	Long run
1. Elimination of deduction for political contributions.....				+25	+5	¹ +15
2. Revision of deduction for child care expenses.....	-10	-10	-10	+5	+5	+5
3. Limitation of allocation of expenses of travel to foreign travel.....	-(2)	-(2)	-(2)	+(2)	+(2)	+(2)
4. 100 percent intercorporate dividend deduction for certain affiliated groups.....	-5	-5	-5			
5. Retention of deduction of State and local tax on motor fuels.....	-220	-220	-220	+110	+110	+110
6. Elimination of allowance to reimbursed employee, as part of sales price, of selling costs and loss on forced sale of house.....				+45	+45	+45
7. Elimination of 40 percent inclusion, additional holding period, and 21 percent maximum rate with respect to capital gains.....	³ -130	³ +10	³ +230			
8. Allowance of indefinite carryover of capital losses.....				-30	-30	-30
9. Modification of allowance of installment sales treatment for revolving credit plans.....	-100	-5	-5	+40	+5	+5
10. Permitting election of 10-year carryforward without carryback for expropriation losses.....	-(2)	-5	⁴ -5			
11. Establishment of \$50,000 as the maximum group-term life insurance not subject to tax.....	-(2)	-(2)	-(2)	+(2)	+(2)	+(2)
12. Liberalization of retirement income credit on certain joint returns.....	-10	-10	-10			
13. Modification of restriction on sick pay exclusion.....	-45	-45	-45	+10	+10	+10
14. Modification of exclusion of foreign earned income.....		+(2)	+(2)	-10	-10	-10
15. Elimination of extension of head-of-household status.....				+20	+20	+20
16. Elimination of extra exemption and transportation expenses for disabled.....				+185	+185	+185
17. Elimination of double investment credit for facilities to control pollution.....				+25	+30	+50
Total.....	-520	-290	-70	+425	+375	+405

¹ \$25,000,000 for presidential election year; 50 percent of that amount for congressional election year and 25 percent for off year; average about \$15,000,000 per year.

² Less than \$2,500,000.

³ These differences are based on revised estimates of effect of House action.

⁴ Negligible by 1970.

TABLE 8.—Action by Conference on H.R. 8363 resulting in significant change in tax receipts over House bill and Senate bill, fiscal years 1964 and 1965.

[In millions of dollars]

Action by Conference	Change in tax receipts			
	From House bill		From Senate bill	
	Fiscal year 1964	Fiscal year 1965	Fiscal year 1964	Fiscal year 1965
1. Elimination of deduction for political contributions.....				+25
2. Revision of deduction for child care expenses.....		-10		+5
3. Limitation of allocation of expenses of travel to foreign travel.....	-(1)	-(1)	+(1)	+(1)
4. 100 percent intercorporate dividend deduction for certain affiliated groups.....		-5		
5. Retention of deduction of State and local tax on motor fuels.....		-220		+110
6. Elimination of allowance to reimbursed employee, as part of sales price, of selling costs and loss on forced sale of house.....				+45
7. Elimination of 40 percent inclusion, additional holding period, and 21 percent maximum rate with respect to capital gains.....		2-130		
8. Allowance of indefinite carryover of capital losses.....				-30
9. Modification of allowance of installment sales treatment for revolving credit plans.....		-100		+40
10. Permitting election of 10-year carryforward without carry-back for expropriation losses.....		-(1)		
11. Establishment of \$50,000 as the maximum group-term insurance not subject to tax.....		-(1)		+(1)
12. Liberalization of retirement income credit on certain joint returns.....		-10		
13. Modification of restriction on sick-pay exclusion.....		-45		+10
14. Modification of exclusion of foreign earned income.....				-10
15. Elimination of extension of head-of-household status.....				+20
16. Elimination of extra exemption and transportation expenses for disabled.....				+185
17. Elimination of double investment credit for facilities to control pollution.....				+25
18. Postponed termination of 18-percent withholding rate and advanced initiation of 14-percent rate.....	2 +530	2 -530		
19. Postponement of repeal of basis adjustment under the investment credit.....	+15			
Total.....	+545	-1,050	+(1)	+425

1 Less than \$2,500,000.

2 This difference is based on revised estimate of effect of House action.

3 Assumes effective date for withholding change of Mar. 8, 1964.

TABLE 9.—Corporate income tax liability under present law and under H.R. 8363, calendar year corporations with selected levels of income, calendar years 1964 and 1965

	Under present law	Under H.R. 8363		Percentage change from present law	
		1964	1965	1964	1965
Rates					
Normal tax rate.....	30	22	22	−26.67	−26.67
Surtax rate.....	22	28	26	+27.27	+18.18
Combined rate.....	52	50	48	−3.85	−7.69
Tax liability					
Taxable income:					
\$10,000.....	\$3,000	\$2,200	\$2,200	−26.67	−26.67
\$25,000.....	7,500	5,500	5,500	−26.67	−26.67
\$30,000.....	10,100	8,000	7,900	−20.79	−21.78
\$40,000.....	15,300	13,000	12,700	−15.03	−16.99
\$50,000.....	20,500	18,000	17,500	−12.20	−14.63
\$75,000.....	33,500	30,500	29,500	−8.96	−11.94
\$100,000.....	46,500	43,000	41,500	−7.53	−10.75
\$200,000.....	98,500	93,000	89,500	−5.58	−9.14
\$500,000.....	254,500	243,000	233,500	−4.52	−8.25
\$1,000,000.....	514,500	493,000	473,500	−4.18	−7.97
\$10,000,000.....	5,194,500	4,993,000	4,793,500	−3.88	−7.72
\$100,000,000.....	51,994,500	49,993,000	47,993,500	−3.85	−7.70

TABLE 10.—Revenue bill of 1964, H.R. 8363—Distribution by adjusted gross income class of the full year effect of rate and structural changes affecting individuals ¹

A. AS APPROVED BY THE CONFERENCE (FEB. 19, 1964)

Adjusted gross income class (thousands of dollars)	Number of taxable returns (millions)	Tax liability under present law ²	Effect of revenue bill of 1964			Total tax under revenue bill of 1964 ²
			Rate change	Structural changes	Total	
In millions of dollars						
0 to 3.....	9.7	1,450	-400	-165	-565	885
3 to 5.....	10.5	4,030	-1,020	-65	-1,085	2,945
5 to 10.....	22.9	18,300	-3,905	+130	-3,775	14,525
10 to 20.....	6.7	12,710	-2,285	+125	-2,160	10,550
20 to 50.....	1.0	6,760	-1,150	+105	-1,045	5,715
50 and over.....	.2	4,170	-710	+160	-550	3,620
Total.....	51.0	47,420	-9,470	+290	-9,180	38,240
Percent distribution by income class						
0 to 3.....	19.0	3.1	4.2	-56.9	6.2	2.3
3 to 5.....	20.6	8.5	10.8	-22.4	11.8	7.7
5 to 10.....	44.9	38.6	41.2	+44.8	41.1	38.0
10 to 20.....	13.1	26.8	24.1	+43.1	23.5	27.6
20 to 50.....	2.0	14.3	12.1	+36.2	11.4	14.9
50 and over.....	.4	8.8	7.5	+55.2	6.0	9.5
Total.....	100.0	100.0	100.0	100.0	100.0	100.0
Percent of tax liability under present law						
0 to 3.....		100.0	-27.6	-11.4	-39.0	61.0
3 to 5.....		100.0	-25.3	-1.6	-26.9	73.1
5 to 10.....		100.0	-21.3	+.7	-20.6	79.4
10 to 20.....		100.0	-18.0	+1.0	-17.0	83.0
20 to 50.....		100.0	-17.0	+1.6	-15.5	84.5
50 and over.....		100.0	-17.0	+3.8	-13.2	86.8
Total.....		100.0	-20.0	+.6	-19.4	80.6

¹ Excluding effect of capital gains provisions and repeal of the requirement to reduce basis by amount of investment credit.
² Excludes alternative tax on capital gain.

TABLE 10.—Revenue bill of 1964, H.R. 8363—Distribution by adjusted gross income class of the full year effect of rate and structural changes affecting individuals ¹—Continued

B. AS PASSED BY THE SENATE (FEB. 7, 1964)

Adjusted gross income class (thousands of dollars)	Number of taxable returns (millions)	Tax liability under present law ²	Effect of revenue bill of 1964			Total tax under revenue bill of 1964 ²
			Rate change	Structural changes	Total	
		In millions of dollars				
0 to 3.....	9.7	1,450	—400	—185	—585	865
3 to 5.....	10.5	4,030	—1,020	—130	—1,150	2,880
5 to 10.....	22.9	18,300	—3,905	—50	—3,955	14,345
10 to 20.....	6.7	12,710	—2,285	+55	—2,230	10,480
20 to 50.....	1.0	6,760	—1,150	+65	—1,085	5,675
50 and over.....	.2	4,170	—710	+145	—565	3,605
Total.....	51.0	47,420	—9,470	—100	—9,570	37,850
		Percent distribution by income class				
0 to 3.....	19.0	3.1	4.2	+185.0	6.1	2.3
3 to 5.....	20.6	8.5	10.8	+130.0	12.0	7.6
5 to 10.....	44.9	38.6	41.2	+50.0	41.3	37.9
10 to 20.....	13.1	26.8	24.1	—55.0	23.3	27.7
20 to 50.....	2.0	14.3	12.1	—65.0	11.3	15.0
50 and over.....	.4	8.8	7.5	—145.0	5.9	9.5
Total.....	100.0	100.0	100.0	100.0	100.0	100.0
		Percent of tax liability under present law				
0 to 3.....		100.0	—27.6	—12.8	—40.3	59.7
3 to 5.....		100.0	—25.3	—3.2	—28.5	71.5
5 to 10.....		100.0	—21.3	—3	—21.6	78.4
10 to 20.....		100.0	—18.0	+4	—17.5	82.5
20 to 50.....		100.0	—17.0	+1.0	—16.1	83.9
50 and over.....		100.0	—17.0	+3.5	—13.5	86.5
Total.....		100.0	—20.0	—2	—20.2	79.8

¹ Excluding effect of capital gains provisions and repeal of the requirement to reduce basis by amount of investment credit.
² Excludes alternative tax on capital gain.

TABLE 10.—Revenue bill of 1964, H.R. 8363—Distribution by adjusted gross income class of the full year effect of rate and structural changes affecting individuals ¹—Continued

C. AS PASSED BY HOUSE OF REPRESENTATIVES (SEPT. 25, 1963)

Adjusted gross income class (thousands of dollars)	Number of taxable returns (millions)	Tax liability under present law ²	Effect of revenue bill of 1964			Total tax under revenue bill of 1964 ²
			Rate change	Structural changes	Total	
			In millions of dollars			
0 to 3.....	9.7	1,450	—400	—155	—555	895
3 to 5.....	10.5	4,030	—1,020	—35	—1,055	2,975
5 to 10.....	22.9	18,300	—3,905	+255	—3,650	14,650
10 to 20.....	6.7	12,710	—2,285	+195	—2,090	10,620
20 to 50.....	1.0	6,760	—1,150	+130	—1,020	5,740
50 and over.....	.2	4,170	—710	+185	—525	3,645
Total.....	51.0	47,420	—9,470	+575	—8,895	38,525
			Percent distribution by income class			
0 to 3.....	19.0	3.1	4.2	—27.0	—6.2	2.3
3 to 5.....	20.6	8.5	10.8	—6.1	—11.9	7.7
5 to 10.....	44.9	38.6	41.2	+44.3	—41.0	38.0
10 to 20.....	13.1	26.8	24.1	+33.9	—23.5	27.6
20 to 50.....	2.0	14.3	12.1	+22.6	—11.5	14.9
50 and over.....	.4	8.8	7.5	+32.2	—5.9	9.5
Total.....	100.0	100.0	100.0	100.0	100.0	100.0
			Percent of tax liability under present law			
0 to 3.....		100.0	—27.6	—10.7	—38.3	61.7
3 to 5.....		100.0	—25.3	— .9	—26.2	73.8
5 to 10.....		100.0	—21.3	+1.4	—19.9	80.1
10 to 20.....		100.0	—18.0	+1.5	—16.4	83.6
20 to 50.....		100.0	—17.0	+1.9	—15.1	84.9
50 and over.....		100.0	—17.0	+4.4	—12.6	87.4
Total.....		100.0	—20.0	+1.2	—18.8	81.2

¹ Excluding effect of capital gains provisions and repeal of the requirement to reduce basis by amount of investment credit.
² Excludes alternative tax on capital gains.

TABLE 11.—Revenue bill of 1964, H.R. 8363—Distribution by adjusted gross income class of the full year effect of rate and structural changes affecting individuals¹

A. AS APPROVED BY THE CONFERENCE (FEB. 19, 1964)

Adjusted gross income class (thousands of dollars)	Structural changes										Total rate and structural changes				
	Rate change	Group term and other insurance	Sick-pay exclusion	Limitation of deductions	Casualty loss deduction	Personal holding companies	Dividend credit and exclusion	Medical care deduction (aged)	Child care allowance	Moving expenses		Income averaging	Minimum standard deduction	Retirement income credit	Total structural changes
In millions of dollars															
0 to 3	-400	(2)	(2)	15	5	(2)	5	(2)	10	(2)	(2)	-170	(2)	-165	-565
3 to 5	-1,020	(2)	(2)	30	30	(2)	25	(2)	30	(2)	(2)	-100	(2)	-65	-1,085
5 to 10	-3,905	(2)	(2)	130	130	(2)	15	(2)	50	(2)	(2)	-50	(2)	+130	-3,775
10 to 20	-2,285	(2)	(2)	75	75	(2)	5	(2)	85	(2)	(2)	-10	(2)	+125	-2,160
20 to 50	-1,150	(2)	(2)	35	35	(2)	(2)	(2)	125	(2)	(2)	-20	(2)	+105	-1,045
50 and over	-710	10	(2)	25	(2)	15	(2)	-5	(2)	(2)	(2)	-10	(2)	+160	-550
Total	-9,470	15	65	300	50	15	300	-10	-15	-60	-40	-320	-10	+290	-9,180
Change as a percent of present tax															
0 to 3	-27.6	(2)	(2)	0.3	(2)	(2)	0.1	(2)	0.2	(2)	(2)	-11.7	(2)	-11.4	-39.0
3 to 5	-25.3	(2)	0.4	.7	0.1	(2)	.1	(2)	0.2	(2)	(2)	-2.5	(2)	-1.6	-26.9
5 to 10	-21.3	(2)	.2	.7	.1	(2)	.1	(2)	.4	(2)	(2)	-.3	(2)	+.7	-20.6
10 to 20	-18.0	(2)	.1	.6	.1	(2)	.1	(2)	.1	(2)	(2)	-.1	(2)	+1.0	-17.0
20 to 50	-17.0	(2)	.1	.5	.1	(2)	.1	(2)	-0.1	(2)	(2)	-.3	(2)	+1.6	-15.5
50 and over	-17.0	.2	(2)	.6	(2)	0.4	(2)	-1.1	(2)	(2)	(2)	-.2	(2)	+3.8	-13.2
Total	-20.0	(2)	.1	.6	.1	(2)	.1	(2)	.6	(2)	(2)	-.7	(2)	+.6	-19.4

¹ Excludes effect of capital gains provisions and repeal of the requirement to reduce basis by amount of investment credit. ² Less than \$2,500,000 or 0.05 percent.

TABLE 11.—Revenue bill of 1964, H.R. 8363—Distribution by adjusted gross income class of the full year effect of rate and structural changes affecting individuals¹—Continued

B. AS PASSED BY THE SENATE (FEB. 7, 1964)

Adjusted gross income class (thousands of dollars)	Structural changes																			Total rate and structural changes	
	Rate change	In millions of dollars																			
		Group term and other insurance	Sick-pay exclusion	Limitation of deductions	Casualty loss deduction	Personal holding companies	Dividend credit and exclusion	Income earned abroad	Medical care deduction (aged)	Child care allowance	Moving expenses	Income averaging	Minimum standard deduction	Political contribution	Travel and entertainment expense	Retirement income credit	Head of household treatment	Disabled persons	Total structural changes		
0 to 3-----	-400	(2)	(2)	5	(2)	5	(2)	(2)	(2)	(2)	(2)	(2)	(2)	(2)	(2)	(2)	(2)	(2)	(2)	-185	-585
3 to 5-----	-1,020	(2)	(2)	20	(2)	30	(2)	(2)	(2)	(2)	(2)	(2)	(2)	(2)	(2)	(2)	(2)	(2)	(2)	-40	-1,150
5 to 10-----	-3,905	(2)	(2)	80	(2)	50	(2)	(2)	(2)	(2)	(2)	(2)	(2)	(2)	(2)	(2)	(2)	(2)	(2)	-95	-3,955
10 to 20-----	-2,285	(2)	(2)	45	(2)	85	(2)	(2)	(2)	(2)	(2)	(2)	(2)	(2)	(2)	(2)	(2)	(2)	(2)	-25	-2,330
20 to 50-----	-1,150	(2)	(2)	20	(2)	125	(2)	(2)	(2)	(2)	(2)	(2)	(2)	(2)	(2)	(2)	(2)	(2)	(2)	-5	-1,185
50 and over-----	-710	10	(2)	20	(2)	15	10	-10	-20	-105	-40	-320	-15	-5	-10	-20	-185	-100	-9,570		
Total-----	-9,470	10	55	190	50	15	300	10	-20	-105	-40	-320	-15	-5	-10	-20	-185	-100	-9,570		
Change as a percent of present tax																					
0 to 3-----	-27.6	(2)	(2)	0.3	(2)	(2)	(2)	(2)	(2)	(2)	(2)	(2)	(2)	(2)	(2)	(2)	(2)	(2)	(2)	(2)	-40.3
3 to 5-----	-25.3	(2)	(2)	.5	(2)	(2)	(2)	(2)	(2)	(2)	(2)	(2)	(2)	(2)	(2)	(2)	(2)	(2)	(2)	(2)	-28.5
5 to 10-----	-21.3	(2)	(2)	.4	(2)	(2)	(2)	(2)	(2)	(2)	(2)	(2)	(2)	(2)	(2)	(2)	(2)	(2)	(2)	(2)	-21.6
10 to 20-----	-18.0	(2)	(2)	.4	(2)	(2)	(2)	(2)	(2)	(2)	(2)	(2)	(2)	(2)	(2)	(2)	(2)	(2)	(2)	(2)	-17.5
20 to 50-----	-17.0	(2)	(2)	.3	(2)	(2)	(2)	(2)	(2)	(2)	(2)	(2)	(2)	(2)	(2)	(2)	(2)	(2)	(2)	(2)	-16.1
50 and over-----	-17.0	0.2	(2)	.5	(2)	0.4	3.0	(2)	(2)	(2)	(2)	(2)	(2)	(2)	(2)	(2)	(2)	(2)	(2)	(2)	-13.5
Total-----	-20.0	(2)	.1	.4	.1	(2)	.6	(2)	(2)	(2)	(2)	(2)	(2)	(2)	(2)	(2)	(2)	(2)	(2)	(2)	-20.2

¹ Excludes effect of capital gains provisions and repeal of the requirement to reduce basis by amount of investment credit.² Less than \$2,500,000 or 0.05 percent.

TABLE 11.—Revenue bill of 1964, H.R. 8363—Distribution by adjusted gross income class of the full year effect of rate and structural changes affecting individuals ¹—Continued

C. AS PASSED BY THE HOUSE OF REPRESENTATIVES (SEPT. 25, 1963)

Adjusted gross income class (thousands of dollars)	Structural changes												Total rate and struc- tural changes	
	Rate change	Group term and other insur- ance	Sick pay exclu- sion	Limita- tion of deduc- tions	Casualty loss deduc- tion	Personal holding compa- nies	Divi- dend credit and exclu- sion	Medical care deduc- tion (aged)	Child care allow- ance	Moving expenses	Income averag- ing	Mini- mum standard deduc- tion		Total struc- tural changes
In millions of dollars														
0 to 3-----	-400	(2)	5	10	(2)	(2)	(2)	(2)	(2)	-5	(2)	-170	-155	-555
3 to 5-----	-1,020	(2)	20	50	(2)	(2)	10	(2)	(2)	-15	(2)	-100	-35	-1,055
5 to 10-----	-3,905	(2)	55	220	25	(2)	30	(2)	(2)	-25	(2)	-50	+255	-3,650
10 to 20-----	-2,285	(2)	25	130	15	(2)	50	(2)	(2)	-15	(2)	-----	+195	-2,090
20 to 50-----	-1,150	5	5	60	5	(2)	85	-5	(2)	-5	(2)	-----	+130	-1,020
50 and over-----	-710	10	(2)	50	(2)	15	125	-5	(2)	(2)	(2)	-----	+185	-525
Total-----	-9,470	15	110	520	50	15	300	-10	-5	-60	-40	-320	+575	-8,895
Change as a percent of present tax														
0 to 3-----	-27.6	(2)	0.3	0.7	(2)	(2)	(2)	(2)	(2)	-0.1	(2)	-11.7	-10.7	-38.3
3 to 5-----	-25.3	(2)	.5	1.2	0.1	(2)	0.2	(2)	(2)	-0.4	(2)	-2.5	-.9	-26.2
5 to 10-----	-21.3	(2)	.3	1.2	.1	(2)	.2	(2)	(2)	-.1	(2)	-.3	+1.4	-19.9
10 to 20-----	-18.0	(2)	.2	1.0	.1	(2)	.4	(2)	(2)	-.1	(2)	-----	+1.5	-16.4
20 to 50-----	-17.0	0.1	.1	.9	.1	(2)	1.3	-0.1	(2)	-.1	(2)	-----	+1.9	-15.1
50 and over-----	-17.0	.2	(2)	1.2	(2)	0.4	3.0	-.1	(2)	(2)	(2)	-----	+4.4	-12.6
Total-----	-20.0	(2)	.2	1.1	.1	(2)	.6	(2)	(2)	-.1	-.1	-.7	+1.2	-18.8

¹ Excludes effect of capital gains provisions and repeal of the requirement to reduce basis by amount of investment credit.² Less than \$2,500,000 or 0.05 percent.

TABLE 12.—*Individual income tax liability under present law and under H.R. 8363*

A. SINGLE PERSON WITH STANDARD DEDUCTION

Adjusted gross income (wages and salaries)	Under present law	Under H.R. 8363		
		Amount of tax	Tax reduction	
			Amount	Percent-age
CALENDAR YEAR 1964				
\$1,000.....	\$62	\$18	\$44	71
\$1,500.....	152	99	53	35
\$2,000.....	242	182	60	25
\$3,000.....	427	365	62	15
\$4,000.....	625	545	80	13
\$5,000.....	818	720	98	12
\$6,000.....	1,048	928	120	11
\$7,500.....	1,405	1,251	154	11
\$10,000.....	2,096	1,872	224	11
\$12,500.....	2,982	2,666	316	11
\$15,000.....	4,002	3,565	437	11
\$17,500.....	5,153	4,569	584	11
\$20,000.....	6,412	5,690	722	11
CALENDAR YEAR 1965				
\$1,000.....	\$62	\$16	\$46	74
\$1,500.....	152	87	65	43
\$2,000.....	242	163	79	33
\$3,000.....	427	333	94	22
\$4,000.....	625	504	121	19
\$5,000.....	818	671	147	18
\$6,000.....	1,048	866	182	17
\$7,500.....	1,405	1,168	237	17
\$10,000.....	2,096	1,742	354	17
\$12,500.....	2,982	2,478	504	17
\$15,000.....	4,002	3,334	668	17
\$17,500.....	5,153	4,291	862	17
\$20,000.....	6,412	5,350	1,062	17

TABLE 12.—Individual income tax liability under present law and under H.R. 8363—Continued

B. MARRIED COUPLE WITH NO DEPENDENTS, WITH STANDARD DEDUCTION

Adjusted gross income (wages and salaries)	Under present law	Under H.R. 8363		
		Amount of tax	Tax reduction	
			Amount	Percentage
CALENDAR YEAR 1964				
\$1,000.....	0	0		
\$1,500.....	\$32	0	\$32	100
\$2,000.....	122	\$66	56	46
\$3,000.....	305	230	75	25
\$4,000.....	485	399	86	18
\$5,000.....	660	554	106	16
\$6,000.....	844	720	124	15
\$7,500.....	1,141	990	151	13
\$10,000.....	1,636	1,440	196	12
\$12,500.....	2,278	2,021	257	11
\$15,000.....	2,960	2,636	324	11
\$17,500.....	3,710	3,311	399	11
\$20,000.....	4,532	4,049	483	11
CALENDAR YEAR 1965				
\$1,000.....	0	0	0	0
\$1,500.....	\$32	0	\$32	100
\$2,000.....	122	\$58	64	52
\$3,000.....	305	204	101	33
\$4,000.....	485	358	127	26
\$5,000.....	660	501	159	24
\$6,000.....	844	658	186	22
\$7,500.....	1,141	915	226	20
\$10,000.....	1,636	1,342	294	18
\$12,500.....	2,278	1,886	392	17
\$15,000.....	2,960	2,460	500	17
\$17,500.....	3,710	3,085	625	17
\$20,000.....	4,532	3,764	768	17

TABLE 12.—*Individual income tax liability under present law and under H.R. 8363—Continued*

C. MARRIED COUPLE WITH 2 DEPENDENTS, WITH STANDARD DEDUCTION

Adjusted gross income (wages and salaries)	Under present law	Under H.R. 8363		
		Amount of tax	Tax reduction	
			Amount	Percent-age
CALENDAR YEAR 1964				
\$1,000.....	0	0	-----	-----
\$1,500.....	0	0	-----	-----
\$2,000.....	0	0	-----	-----
\$3,000.....	\$65	\$4	\$61	94
\$4,000.....	245	164	81	33
\$5,000.....	420	325	95	23
\$6,000.....	600	500	100	17
\$7,500.....	877	750	127	14
\$10,000.....	1,372	1,200	172	13
\$12,500.....	1,966	1,739	227	12
\$15,000.....	2,616	2,326	290	11
\$17,500.....	3,350	2,987	363	11
\$20,000.....	4,124	3,683	441	11
CALENDAR YEAR 1965				
\$1,000.....	0	0	-----	-----
\$1,500.....	0	0	-----	-----
\$2,000.....	0	0	-----	-----
\$3,000.....	\$65	\$4	\$61	94
\$4,000.....	245	144	101	41
\$5,000.....	420	290	130	31
\$6,000.....	600	450	150	25
\$7,500.....	877	687	190	22
\$10,000.....	1,372	1,114	258	19
\$12,500.....	1,966	1,622	344	17
\$15,000.....	2,616	2,172	444	17
\$17,500.....	3,350	2,785	565	17
\$20,000.....	4,124	3,428	696	17

TABLE 12.—*Individual income tax liability under present law and under H.R. 8363—Continued*

D. HEAD OF HOUSEHOLD WITH 1 DEPENDENT, WITH STANDARD DEDUCTION

Adjusted gross income (wages and salaries)	Under present law	Under H.R. 8363		
		Amount of tax	Tax reduction	
			Amount	Percentage
CALENDAR YEAR 1964				
\$1,000-----	0	0	-----	-----
\$1,500-----	\$32	0	\$32	100
\$2,000-----	122	\$66	56	46
\$3,000-----	305	234	71	23
\$4,000-----	489	415	74	15
\$5,000-----	673	582	91	14
\$6,000-----	868	759	109	13
\$7,500-----	1,192	1,056	136	11
\$10,000-----	1,768	1,569	199	11
\$12,500-----	2,516	2,242	274	11
\$15,000-----	3,348	2,991	357	11
\$17,500-----	4,287	3,817	470	11
\$20,000-----	5,316	4,730	586	11
CALENDAR YEAR 1965				
\$1,000-----	0	0	-----	-----
\$1,500-----	\$32	0	\$32	100
\$2,000-----	122	\$58	64	52
\$3,000-----	305	208	97	32
\$4,000-----	489	376	113	23
\$5,000-----	673	534	139	21
\$6,000-----	868	700	168	19
\$7,500-----	1,192	970	222	19
\$10,000-----	1,768	1,456	312	18
\$12,500-----	2,516	2,081	435	17
\$15,000-----	3,348	2,788	560	17
\$17,500-----	4,287	3,576	711	17
\$20,000-----	5,316	4,430	886	17

“THE REVENUE ACT OF 1964”

Public Law 88-272

COMPARISON OF PROVISIONS OF H.R. 8363, AS
PASSED BY THE HOUSE, WITH PRESENT LAW,
TREASURY RECOMMENDATIONS, SENATE
FINANCE COMMITTEE VERSION, SENATE
VERSION, AND AS AGREED
TO BY CONFEREES

COMMITTEE ON WAYS AND MEANS
U.S. HOUSE OF REPRESENTATIVES
EIGHTY-EIGHTH CONGRESS
SECOND SESSION



MARCH 1964

Prepared by the Staff of the Committee on Ways and Means for
the use of the Committee on Ways and Means

U.S. GOVERNMENT PRINTING OFFICE
WASHINGTON : 1964

CONFEREES ON H.R. 8363

On the Part of the House

(Members of the Committee on Ways and Means)

WILBUR D. MILLS, Arkansas, *Chairman*
CECIL R. KING, California
THOMAS J. O'BRIEN, Illinois
HALE BOGGS, Louisiana
JOHN W. BYRNES, Wisconsin
THOMAS B. CURTIS, Missouri
VICTOR A. KNOX, Michigan

On the Part of the Senate

(Members of the Committee on Finance)

HARRY FLOOD BYRD, Virginia
RUSSELL B. LONG, Louisiana
GEORGE A. SMATHERS, Florida
CLINTON P. ANDERSON, New Mexico
JOHN J. WILLIAMS, Delaware
FRANK CARLSON, Kansas
WALLACE F. BENNETT, Utah

II

INTRODUCTION

This comparison of the provisions of H.R. 8363, "The Revenue Act of 1964," consists of six parts. Parts I, II, and III set forth in columns, where applicable, the existing law, the related Treasury recommendations, the House-passed provisions, the action taken by the Senate Committee on Finance, the Senate, and the conferees. The last column which shows the action taken by the conferees is also the Public Law. The section numbers referred to in the titles of Parts I, II, and III are the section numbers of the Public Law.

Part I covers sections 1 through 302 of H.R. 8363 as passed by the House. In some cases, these sections were adopted without change in the Senate. In others, changes were made.

Part II covers the amendments to H.R. 8363 which were added to the House-passed bill by the Senate Finance Committee.

Part III covers the amendments to H.R. 8363 which were added on the Senate floor to the bill as reported by the Senate Committee on Finance.

Part IV describes very briefly other recommendations of the Treasury Department which are not included in H.R. 8363 as finally enacted.

Part V describes very briefly other amendments which were considered but rejected by the Senate Committee on Finance (as announced in its press releases) in connection with its consideration of H.R. 8363.

Part VI describes very briefly other amendments which were offered on the Senate floor but which were rejected or withdrawn during consideration of H.R. 8363.

INDEX

	Page
1. Legislative history.....	IV
2. Contents.....	1
3. Summary of Senate Finance Committee revisions and conference action on such revisions.....	4
4. Summary of Senate floor amendments and conference action on such amendments.....	12
5. Part I—Sections 1 through 302 of H.R. 8363 as passed by the House.....	14
6. Part II—Other amendments adopted by the Senate Committee on Finance.....	92
7. Part III—Senate floor amendments.....	112
8. Part IV—Recommendations of the Treasury Department not adopted.....	120
9. Part V—Amendments considered and rejected by the Senate Finance Committee.....	121
10. Part VI—Senate floor amendments offered and rejected or withdrawn.....	125

LEGISLATIVE HISTORY

Date of President's tax message.....	Jan. 24, 1963.
Dates of public hearings before the House Committee on Ways and Means.....	Feb. 6, 7, 8, 18, 19, 20, 21, 25, and 26; Mar. 4, 6, 7, 8, 11, 12, 13, 14, 15, 18, 19, 20, 21, 22, 25, 26, and 27, 1963 (26 days).
House bill number.....	H.R. 8363.
Date bill introduced in House of Representatives.....	Sept. 10, 1963.
Date bill reported by Committee on Ways and Means.....	Sept. 13, 1963.
House report number.....	H. Rept. 749 (with supplemental and separate views).
Date rule obtained—H. Res. 527 providing for a closed rule, waiving points of order against, 8 hours of debate.	Sept. 24, 1963.
Dates of House floor debates.....	Sept. 24 and 25, 1963.
Rule: H. Res. 527 adopted by record vote—320 yeas, 66 nays, 46 not voting.	
Motion to recommit: Rejected by a record vote—199 yeas, 226 nays, 7 not voting.	
Final passage: Passed by a record vote—271 yeas, 155 nays, 6 not voting.	
Date bill passed the House of Representatives.....	Sept. 25, 1963.
Public hearings before the Senate Committee on Finance.....	Oct. 15, 16, 17, 18, 21, 22, 23, 24, 25, 28, 29, 30, and 31; Nov. 1, 4, 5, 6, 7, 8, 12, 13, 14, 15, 21 and 22; Dec. 2, 3, 4, 5, 6, 9, 10, 1963. (32 days.)
Date reported by Senate Committee on Finance.....	Jan. 28, 1964.
Senate report number.....	S. Rept. 830 (with separate views).
S. Rept. 830, pt. 2.....	Jan. 31, 1964.
Dates of Senate floor debates.....	Jan. 30, 31; Feb. 3, 4, 5, 6, 7, 1964.
Date bill passed the Senate.....	Feb. 7, 1964.
Vote.....	77 yeas, 21 nays, 2 not voting.
Dates of conference action.....	Feb. 10, 17, 18, and 19, 1964.
Date conference report filed.....	Feb. 24, 1964.
Conference report number.....	Rept. No. 1149.
Date conference report presented to House of Representatives.....	Feb. 25, 1964.
Date conference report accepted by the House of Representatives.....	Do.
Vote.....	326 yeas, 83 nays.
Date conference report presented to the Senate.....	Feb. 25, 1964.
Date conference report accepted by the Senate.....	Feb. 26, 1964.
Vote.....	74 yeas, 19 nays.
Date signed by the President.....	Feb. 26, 1964.
Public law number.....	Public Law 88-272.
<hr/>	
Dates of hearings before the Subcommittee on Taxes of the Senate Select Committee on Small Business (effects of H.R. 8363 on small business).....	Apr. 29 and 30, 1963.
Number of report of Select Committee on Small Business.....	Rept. No. 397.

CONTENTS

PART I

SECS. 1 THROUGH 302 OF H.R. 8363 AS PASSED BY THE HOUSE

Public Law section number	House section number	Senate section number	Title	Page
1	1	(*)	Declaration by Congress	14
2	2	1	Short title, etc	14
111	111	111	Reduction of tax on individuals	14
112	112	112	Minimum standard deduction	14
113	113	113	Related amendments	16
121	121	121	Reduction of tax on corporations	16
122	122	122	Current tax payments by corporations	18
123	123	123	Related amendments	18
131	131	131	Effective date—General rule	20
132	132	132	Effective date—Fiscal year taxpayers	20
201	201	201	Dividends received by individuals	22
203	202	203	Repeal of requirement that basis of sec. 38 property be reduced by 7 percent; other provisions relating to investment credit	22
204	203	204	Group-term life insurance purchased for employees	24
(**)	204	(*)	Inclusion in gross income of reimbursed medical expenses to the extent that the reimbursement exceeds the expenses	26
205	205	205	Amounts received under wage continuation plans	26
206	206	206	Exclusion from gross income of gain on sale or exchange of residence of individual who has attained age 65	26
207	207	207	Denial of deduction for certain State, local, and foreign taxes	28
208	208	208	Personal casualty and theft losses	28
209	209	209	Charitable, etc., contributions and gifts	30
211	210	211	One-percent limitation on medicine and drugs	32
212	211	212	Care of dependents	34
213	212	213	Moving expenses	34
215	213	216	Interest on loans incurred to purchase certain insurance and annuity contracts	38
221	214	222	Employee stock option and purchase plans	40
224	215	225	Interest on certain deferred payments	48
225	216	226	Personal holding companies	50
226	217	227	Treatment of property in case of oil and gas wells	60
227	218	228	Treatment of certain iron ore royalties	64
230	219	(*)	Capital gains and losses	66
231	220	233	Gain from dispositions of certain depreciable realty	72
232	221	234	Averaging	76
234	222	236	Repeal of additional 2-percent tax for corporations filing consolidated returns	84
235	223	237	Reduction of surtax exemption in case of certain controlled corporations, etc	84
301	301	301	Optional tax if adjusted gross income is less than \$5,000	90
302	302	302	Income tax collected at source	90

*This section deleted from House bill.

**Deleted from the final act.

PART II

OTHER AMENDMENTS ADOPTED BY THE SENATE COMMITTEE ON FINANCE WITH RESPECT TO H.R. 8363

Public law section number	Senate section number	Title	Page
202	202	Limitation on retirement income	92
210	210	Losses arising from expropriation of property by governments of foreign countries.....	94
(*)	214	Deduction for political contributions	94
214	215	100-percent dividends-received deduction for members of electing affiliated groups.....	96
216	217	Interest on indebtedness incurred or continued to purchase or carry tax-exempt bonds.....	98
217	218	Repeal of requirement of allocation of certain traveling expenses	98
218	219	Acquisition of stock in exchange for stock of corporation which is in control of acquiring corporation	100
219	220	Retroactive qualification of certain union-negotiated multiemployer pension plans	100
220	221	Qualified pension, etc., plan coverage for employees of certain subsidiary employers.....	102
222	223	Installment sales by dealers in personal property	104
223	224	Timing of deductions and credits in certain cases where asserted liabilities are contested.....	104
228	229	Insurance companies	106
229	230	Regulated investment companies	108
(*)	231	Foreign tax credit with respect to certain foreign mineral income	110
(*)	232	Amounts received from employer on sale of residence of employee in connection with transfer to new place of work	110
233	235	Small business corporations.....	110
236	238	Validity of tax liens against mortgagees, pledgees, and purchasers of motor vehicles.....	112

*Deleted from the final act.

PART III

FLOOR AMENDMENTS AGREED TO BY THE SENATE WITH RESPECT TO H.R. 8363

Public law section number	Senate section number	Title	Page
237	239	Earned income of citizens of the United States from sources without the United States	112
(*)	240	Head of households	112
238	241	Losses arising from confiscation of property by Cuba	114
239	242	Credit or refund of self-employment tax	114
240	243	Extension of time for payment of estate tax on value of revisionary or remainder interest in property	114
(*)	244	Crop insurance proceeds	116
(*)	245	Transportation of disabled individual to and from work	116
(*)	246	Additional personal exemptions for disability	116
(*)	247	Time for filing claim for refund of taxes paid for gasoline used on farms	118
(*)	248	Facilities to control water or air pollution	118

*Deleted from the final act.

PART IV

Recommendations of the Treasury Department not included in H.R. 8363 as finally enacted

	Page
1. Tax treatment of older persons	120
2. Travel expenses	120
3. Research and development expenses	120
4. Gains accrued on capital assets at time of gift or death	120
5. Sale of life estates	120
6. Split-dollar insurance	120
7. Deferred payments contingent on future income	120
8. Carryover of excess deductions in the case of oil and gas royalties	120
9. Sale of mineral interests	120
10. 5-percent limitation on itemized deductions	120

PART V

Amendments considered and rejected by the Senate Committee on Finance

A. Sections of the bill as passed by the House: 1, 111, 112, 121, 201, 202, 203, 205, 206, 214, 216, 217, 221, and 223.....	Page 121
B. Amendments not directly related to any particular section:	
1. Simplified tax method.....	122
2. Political contributions.....	123
3. Exploration expenditures.....	123
4. Exploration expenditures.....	123
5. Travel and entertainment expenses.....	123
6. Real property taxes paid by lessee.....	123
7. Unlimited charitable contributions deduction.....	123
8. Depletion of physical strength, etc., of professional athletes.....	123
9. Ordinary income offset by capital losses.....	123
10. Capital gains treatment upon liquidation of small business (H.R. 7503).....	123
11. Air and water pollution abatement.....	123
12. Intangible drilling and development costs.....	123
13. Tax credit for expenses of higher education.....	123
14. Deduction for entertainment expenses.....	123
15. H.R. 7516, relating to the taxation of cooperatives.....	123
16. H.R. 5468, relating to the credit or refund of self-employment tax in certain cases.....	123
17. Depreciation guidelines.....	123
18. Intercorporate dividends received deduction.....	123
19. Increase in personal exemptions.....	123
20. Exclusion for income earned abroad.....	123
21. Interest equalization tax.....	124
22. Head of household treatment.....	124
23. Flood losses.....	124
C. Excise taxes:	
1. Musical instruments.....	124
2. Retailers' excise taxes on toilet preparations.....	124
3. Manufacturers' excise tax on pens and mechanical pencils.....	124
4. Tax on television tuners.....	124
5. Retail excise tax on luggage.....	124
6. Retail excise tax on jewelry and related items.....	124
7. Manufacturers' excise tax on musical instruments.....	124
8. Automotive excise tax.....	124
9. Admissions tax, legitimate theater.....	124

PART VI

Amendments considered and rejected or withdrawn on the Senate floor

	Page
1. Group-term life insurance—exclusion.....	125
2. Tax credit for higher education.....	125
3. Deduction for higher education.....	125
4. Personal exemptions.....	125
5. Minimum standard deduction.....	125
6. Dividend credit.....	125
7. Additional exemption for dependent who is blind.....	125
8. Premiums for flood insurance.....	125
9. Regulatory agencies.....	125
10. Regulatory agencies.....	125
11. Adjustment of basis under investment credit.....	125
12. Percentage depletion rates for oil and gas wells.....	125
13. Percentage depletion for oil and gas wells.....	126
14. Capital loss carryover for individuals.....	126
15. Termination of tax reduction.....	126
16. Deduction to lessee of residential land of certain real property tax paid by him.....	126
17. Interest on indebtedness incurred or continued to purchase or carry tax-exempt bonds.....	126
18. Repeal of retailer's excise tax on jewelry, furs, toilet preparations, and luggage.....	126
19. Repeal of manufacturers' excise tax on mechanical pencils and pens.....	126
20. Musical instruments.....	126
21. Exemption from 10-percent excise tax tickets to live dramatic or musical performances.....	126
22. Retailers' excise tax on purses and handbags.....	126
23. Cabaret tax.....	126
24. Rebuilt automotive parts.....	126

SUMMARY OF SENATE FINANCE COMMITTEE REVISIONS AND CONFERENCE ACTION ON SUCH REVISIONS

The following represents a thumbnail sketch of the major revisions made by the Senate Committee on Finance (as announced in press releases issued by that committee), (A) to the provisions of H.R. 8363 as passed by the House, and (B) to other provisions of existing law. Also summarized is the action taken by the conferees with respect to such revisions. Numbers in brackets are Senate numbered amendments. Section numbers referred to are section numbers of the Public Law. (Key: HR—House recedes; SR—Senate recedes.)

A. H.R. 8363 as passed by the House

1. *Declaration by Congress (sec. 1)*—

(a) Revision: Deleted section 1 of the House bill.

(b) Conference action: Agreed to retain this provision in the act. [SA No. 1—SR]

2. *Group-term insurance (sec. 204)*—

Exclusion—

(a) Revision: Increased the exclusion coverage from \$30,000 to \$70,000.

(b) Conference action: Agreed upon an exclusion of \$50,000. [SA No. 20—HR with an amendment]

Cost method of computation—

(a) Revision: Deleted the actual cost method of computing the cost of group-term insurance.

(b) Conference action: Agreed to delete this provision from the act. [SA No. 21—HR]

Special deduction for employees—

(a) Revision: Deleted the special deduction for employees.

(b) Conference action: Agreed to delete this provision from the act. [SA No. 23—HR]

Withholding provisions—

(a) Revision: Deleted the withholding requirement provisions.

(b) Conference action: Agreed to delete these provisions from the act. [SA No. 25—HR]

Information returns—

(a) Revision: Substitutes an information return reporting requirement for the withholding requirement.

(b) Conference action: Agreed to retain this revision in the act. [SA No. 26—HR with an amendment]

3. *Reimbursed medical expenses*—

(a) Revision: Deleted Section 204 of the House bill.

(b) Conference action: Agreed to delete this provision from the act. [SA No. 30—HR]

4. *Deduction of certain State and local taxes (sec. 207)*—

Gasoline taxes; auto registration fees—

(a) Revision: Amended the House provision to restore the deductibility of State and local gasoline taxes and automobile registration fees (including auto tags and drivers' licenses).

(b) Conference action: Agreed to continue the deductibility of State and local taxes on gasoline, diesel fuels, and other fuels, but to disallow the deductibility of auto registration fees. [SA No. 32—HR with an amendment]

Special taxing district—

(a) Revision: Continues the deduction for taxes levied by a special taxing district.

(b) Conference action: Agreed to continue the deduction of such taxes. [SA No. 35—HR]

A. H.R. 8363 as passed by the House—Continued

5. Charitable contributions deduction (sec. 209)—

Unlimited charitable contributions deduction—

- (a) Revision: Amended the unlimited charitable contributions deduction so as to make that deduction unavailable in the case of charitable contributions to private foundations. House bill makes no change in existing law.
- (b) Conference action: Agreed to an amendment providing that the unlimited charitable contribution deduction will be available in the case of contributions to organizations "not supported by the general public" (1) where the foundation is itself an "operating foundation" or (2) where the organization pays out (either uses it itself for the charitable purpose or gives it to another organization which uses it for the charitable purpose) within a 3-year period an amount equal to 50 percent or more of the contribution, and all of the income of the organization through the taxable year in which the 50-percent test is met. Such an organization will not qualify, however, if any part of income or corpus is lent to the donor of the contribution, any member of his family, any employee of his, any officer or employee of a corporation in which he owns directly or indirectly 50 percent of the stock, or any partner or employee of a partnership where he owns directly or indirectly a 50-percent interest in the partnership; neither can the foundation pay compensation to this same group of persons (except to the extent of reasonable compensation), nor make the services provided by the foundation available to them on a preferential basis, nor buy any property or securities (except minimal amounts) from them nor sell any but minimal amounts to them. [SA No. 36—HR with an amendment]

Five-year carryover for individuals—

- (a) Revision: Provides for a 5-year carryover for unused charitable contributions deduction for individuals.
- (b) Conference action: Agreed to retain this revision in the act. [SA No. 37—HR]

Gifts of future interests—

- (a) Revision: Modifies the House provision re future interests to deny a deduction in any case where a life interest is reserved (whether reserved for the donor's life or anyone else's life).
- (b) Conference action: Agreed to retain this revision with an amendment making the provision effective July 1, 1964. [SA No. 41—HR; SA No. 42—HR with an amendment]

Five-year carryover for corporations; effective date—

- (a) Revision: Provides that the new 5-year carryover for corporations under the House bill is to apply with respect to contributions made in 1962 and subsequent years.
- (b) Conference action: Agreed to retain this revision in the act. [SA No. 42—HR with an amendment]

6. Child care expense deduction (sec. 212)—

Maximum annual deduction—

- (a) Revision: Increases the maximum annual deduction to \$1,000 for all eligible taxpayers who have three or more dependents.
- (b) Conference action: Agreed to retain the House provision which provides for increasing the annual deduction to \$900 for all eligible taxpayers where there are two or more qualified dependents. [SA No. 46—HR with an amendment]

Income limitation—

- (a) Revision: Increases the present \$4,500 income limitation to \$7,000 in the case of working wives and in the case of husbands with incapacitated wives.
- (b) Conference action: Agreed to increase the income limitation to \$6,000 both in the case of working wives and in the case of husbands with incapacitated wives. [SA No. 47—HR with an amendment]

7. Stock options (sec. 221)—

Reset provisions—price—

- (a) Revision: Provides that the antireset provisions of section 422(b)(5) shall not apply if the new option and all outstanding qualified (or restricted) stock options referred to in such section are to purchase stock of the same class in the same corporation and a price payable under each such outstanding option (as of the date of the grant of the new option) is not more than the option price of the new option.
- (b) Conference action: Agreed to retain this revision in the act. [SA No. 70—HR with an amendment]

A. H.R. 8363 as passed by the House—Continued

7. *Stock options (sec. 221)*—Continued

Reset provisions—accelerating option period—

(a) Revision: Provides that the exercise date of the option may be accelerated without such a change being considered a modification which would require a new option price for the option for it to continue to constitute a qualified option.

(b) Conference action: Agreed to retain this revision in the act. [SA No. 91—HR]

“Qualified” option—

(a) Revision: Amends the dates within which a “qualified” option may be modified to meet the terms of the new section without such modification being considered a new option.

(b) Conference action: Agreed to retain this revision in the act. [SA No. 95—HR]

General effective date—

(a) Revision: Provides a new general effective date which would make the section apply to options granted to an individual after December 31, 1963, rather than June 11, 1963.

(b) Conference action: Agreed to retain these revisions in the act. [SA No. 64, 66, 67, 71, 74, 76, 81, 82, 83, 84, 85, 86, and 87—HR]

8. *Interest on certain deferred payments (sec. 224)*—

Personal services—

(a) Revision: Denies an interest deduction for carrying charges on contracts covering the purchase of services (such as college tuition).

(b) Conference action: Agreed to restore this provision to the bill but makes it applicable only with respect to educational services (including lodging) which are purchased from an educational institution and which are provided for a student of such institution. [SA No. 99—HR with an amendment]

Effective date—

(a) Revision: Provides that the new provisions, including those in the House bill, will not apply to a sale or exchange made pursuant to a binding written contract (including an irrevocable written option) entered into before July 1, 1963.

(b) Conference action: Agreed to retain this revision in the act. [SA No. 100—HR with an amendment]

9. *Personal holding companies (sec. 225)*—

Lending and finance companies—interest—

(a) Revision: Provides that in applying the 20 percent of ordinary gross income test in the case of lending or finance companies, certain interest is not to be treated in the same category as personal holding company income.

(b) Conference action: Agreed to retain this revision in the act. [SA No. 102—HR]

Lending or finance business—services or facilities—

(a) Revision: Amends the definition of a lending or finance business to include therein the business of rendering services or making facilities available to another member of the same affiliated group which is also in the lending or finance business.

(b) Conference action: Under the conference agreement, the definition of a lending or finance business is to include (a) the rendering of services or making of facilities available in connection with the activities of making loans, etc., where such activities are carried on by the corporation rendering the services or making the facilities available and (b) rendering services or making facilities available to another corporation which is a member of the same affiliated group and is engaged in the lending or finance business if such services or facilities are related to the lending or finance business of such other corporation. [SA No. 105—HR with an amendment]

Lending or finance business—secured loans—

(a) Revision: Excepts from the exclusion provided in the term lending or finance business, loans, notes, and installment obligations, evidenced or secured by contracts of conditional sale, chattel mortgages or lease agreements arising out of the sale of goods or services in the course of the transferor's or borrower's trade or business.

(b) Conference action: Agreed to retain this revision in the act. [SA No. 106—HR with an amendment]

A. H.R. 8363 as passed by the House—Continued

9. *Personal holding companies (sec. 225)*—Continued

Lending or finance company—income received from members—

(a) Revision: Provides that income received by a lending or finance company from another company which is a member of the same affiliated group and which is also a lending or finance company is not to be treated as personal holding income for purposes of applying the 20-percent test.

(b) Conference action: Agreed to retain this revision in the act. [SA No. 107—HR]

Rental income—distribution—

(a) Revision: Modifies the 10-percent test to provide that where the rental income meets the 50-percent test, the 10-percent test may be considered as met where the company distributes to the shareholders any of the other personal holding company income in excess of the 10-percent requirement.

(b) Conference action: Agreed to retain this revision in the act. [SA No. 108—HR]

Rental income—leases—

(a) Revision: Provides that gross income derived from leases of tangible personal property which is not customarily rented to any one lessee for more than 3 years is not to be reduced by depreciation and amortization.

(b) Conference action: Agreed to retain this revision in the act. [SA No. 109—HR]

Income from mineral, oil, and gas royalties—

(a) Revision: Provides that income from mineral, oil, and gas royalties includes production payments and overriding royalties.

(b) Conference action: Agreed to retain this revision in the act. [SA No. 111—HR]

One-month liquidations—

(a) Revisions: Provides that the special rule for 1-month liquidations shall be applicable to corporate liquidations occurring before January 1, 1967 (rather than January 1, 1966). [SA No. 114]

Provides that the capital gain treatment under new subsection (g) shall not apply to certain earnings and profits to which the corporation succeeds after December 31, 1963 (instead of August 1, 1963). [SA Nos. 116 and 117]

New paragraph (2) of section 333(g) is amended to provide that it shall be applicable to liquidations occurring after December 31, 1966 (instead of December 31, 1965), of corporations which owe qualified indebtedness on January 1, 1964 (instead of on August 1, 1963). [SA Nos. 119 and 124]

Provides that a corporation which attempts to qualify under the new liquidation provisions, but was not eligible to do so, may elect to convert the liquidation to the treatment provided by section 331. [SA No. 131]

(b) Conference action: Agreed to retain all of these revisions in the act. [HR]

One-month liquidations—"would have been" corporations—

(a) Revision: Provides that the shareholders of a corporation will be a "would have been" corporation if it was not a personal holding company for at least 1 of its 2 most recent taxable years ending before December 31, 1963 (instead of the date of enactment of the bill).

(b) Conference action: Agreed to delete this revision from the act. [SA No. 129—SR]

Deduction for amortization of indebtedness—

(a) Revision: Provides that the term "qualified indebtedness" includes outstanding indebtedness incurred by the taxpayer before January 1, 1964 (instead of before August 1, 1963). [SA No. 133]

Provides that the deductions allowed for depletion shall be taken into account to reduce the deduction allowed by section 545(c) and the qualified indebtedness under certain circumstances. [SA No. 137 and 139]

Provides that a corporation will be a "would have been" corporation if it was not a personal holding company under section 542 of existing law for at least 1 of its 2 most recent taxable years ending before December 31, 1963 (instead of the date of enactment of the bill). [SA No. 132]

(b) Conference action: Agreed to retain the revisions made by SA No. 133, 137, and 139. [SA No. 133, 137, and 139—HR] Agreed to delete the revision made by SA No. 132. [SA No. 132—SR]

A. H.R. 8363 as passed by the House—Continued

9. *Personal holding companies (sec. 225)*—Continued

Foreign personal holding companies—

- (a) Revision: Deletes the House provision which provides for an increase in basis with respect to certain foreign personal holding company holdings.
- (b) Conference action: Agreed to add a new provision to the act which provides that the basis determined under section 1014(b)(5) of a share of stock or a security acquired from a decedent dying after December 31, 1963, of a corporation which was a foreign personal holding company for its most recent taxable year ending before the date of the decedent's death is to be increased by the proportionate share of any Federal estate tax attributable to the net appreciation in value of all such shares and securities. [SA No. 141—HR with an amendment]

10. *Iron ore royalties (sec. 227)*—

Domestic iron ore—

- (a) Revision: Limits the new capital gain treatment to iron ore royalties received with respect to iron ore mined in the United States.
- (b) Conference action: Agreed to retain this revision in the act. [SA No. 151—HR]

Related parties—

- (a) Denies the new capital gain treatment where the same parties or substantially the same parties directly or indirectly own the iron ore property or operate it.
- (b) Conference action: Agreed to retain this revision in the act. [SA No. 153—HR]

Social Security Act—

- (a) Revision: Amends the Social Security Act to prevent iron ore royalties which receive capital gains treatment from being taken into account for social security purposes.
- (b) Conference action: Agreed to retain this revision in the act. [SA No. 160—HR]

Effective date—

- (a) Revision: Modifies effective date so as to apply only to royalties received after December 31, 1963, with respect to iron ore mined after that date.
- (b) Conference action: Agreed to retain this revision in the act. [SA No. 161—HR]

11. *Taxation of capital gains (sec. 230)*—

Tax rate on capital gains—

- (a) Revision: Deletes the provisions of the House bill which provide in general that in the case of capital assets held more than 2 years, 40 percent (rather than 50 percent) of the gain will be included in the tax base and the alternative rate of tax on the gain is to be 21 percent (rather than 25 percent).
- (b) Conference action: Agreed to delete this provision from the act. [SA No. 166—HR with an amendment]

Unlimited carryover for individuals—

- (a) Revision: Deletes the House provision which provides for an unlimited (instead of a 5-year) carryover of capital losses in the case of individuals.
- (b) Conference action: Agreed to retain in the act a provision which provides an unlimited carryover of capital losses in the case of individuals. [SA No. 166—HR with an amendment]

12. *Withholding (sec. 302)*—

Rate of withholding—

- (a) Revision: Provides for withholding at a rate of 14 percent in 1964 (rather than at a rate of 15 percent for 1964 and 14 percent for 1965 and thereafter).
- (b) Conference action: Agreed to a withholding rate of 14 percent. [SA No. 204—HR]

Effective date—

- (a) Revision: Provides that the new withholding rate of 14 percent is to apply with respect to amounts paid after the 7th day following the date of enactment of this act.
- (b) Conference action: Agreed to retain this revision in the act. [SA No. 208—HR]

B. Other provisions

1. *Retirement income credit (sec. 202)*—

- (a) Revision: Provides an increase in the amount of the maximum amount of retirement income of \$1,524 in the case of certain joint returns where both the husband and wife have attained age 65 before the close of the taxable year.
- (b) Conference action: Agreed to the revision with an amendment which provides that a husband and wife, who make a joint return for the taxable year and both of whom have attained age 65 before the close of the taxable year, may elect, in general, to combine their retirement income, in which case, the amount of combined retirement income of both spouses to be taken into account is not to exceed \$2,286 less amounts received by both spouses as pensions and annuities (including social security and railroad retirement benefits) and, if the individual has not attained the age of 72, adjustments for earned income received in the taxable year. [SA No. 8—HR with an amendment]

2. *Foreign expropriation losses (sec. 210)*—

- (a) Revision: Permits certain foreign expropriation losses sustained after 1958 to be carried over for 10 years without any carryback.
- (b) Conference action: Agreed to retain this provision in the act. [SA No. 43—HR with an amendment]

3. *Political contributions*—

- (a) Revision: Allows individuals a deduction, limited to \$50 a year (\$100 on a joint return) for political contributions.
- (b) Conference action: Agreed to delete this provision from the act. [SA No. 53—SR]

4. *Intercorporate dividends received deduction (sec. 214)*—

- (a) Revision: Provides a 100-percent intercorporate dividends received deduction for certain affiliated groups.
- (b) Conference action: Agreed to retain this provision in the act. [SA No. 54—HR]

5. *"Bank loan" insurance (sec. 215)*—

- (a) Revision: Provides that the provision which disallows a deduction for interest on amounts borrowed to purchase certain insurance and annuity contracts is to apply only with respect to contracts purchased after December 31, 1963 (rather than August 6, 1963).
- (b) Conference action: Agreed to retain the August 6, 1963, effective date. [SA No. 56—SR]

6. *Face amount certificate companies (sec. 216)*—

- (a) Revision: Provides that a "face amount certificate company" shall not be subject to the disallowance under section 265(2) of the code relating to indebtedness incurred or continued to purchase or carry tax-exempt obligations of a deduction for interest with respect to face amount certificates to the extent that the average of the tax-exempt obligations of the company do not constitute more than 25 percent of the average of the total assets of the company.
- (b) Conference action: Agreed to retain this provision with an amendment substituting 15 percent for 25 percent. [SA No. 57—HR with an amendment]

7. *Travel expense deduction (sec. 217)*—

- (a) Revision: Repeals the requirement of allocation of certain travel expenses for business trips which are combined with a vacation.
- (b) Conference action: Agreed to this revision with an amendment which limits its applicability to travel within the United States. Existing law is to apply with respect to travel outside of the United States. [SA No. 58—HR with an amendment]

8. *Corporate reorganizations (sec. 218)*—

- (a) Revision: Provides tax-free status for a stock reorganization where the corporation acquiring the stock exchanges the voting stock of its parent corporation for the stock of the corporation being acquired.
- (b) Conference action: Agreed to retain this provision in the act. [SA No. 59—HR]

9. *Union negotiated multi-employer pension plans (sec. 219)*—

- (a) Revision: Provides for retroactive qualification (for all years to which the Internal Revenue Code of 1954 applies) of a multi-employer pension plan created under a collective bargaining agreement with employee representatives.
- (b) Conference action: Agreed to retain this provision in the act. [SA No. 60—HR]

B. Other provisions—Continued

10. Pension plans for employees of certain subsidiaries (sec. 220)—

- (a) Revision: Permits U.S. corporations to extend coverage under their qualified pension, profit-sharing, etc., plans to U.S. citizens employed by foreign subsidiaries, or by domestic subsidiaries operating outside the United States, where the employees are also covered for social security purposes.
- (b) Conference action: Agreed to retain this provision in the act. [SA No. 61—HR with an amendment]

11. Revolving credit sales (sec. 222)—

- (a) Revision: Installment sales tax treatment is fully extended to revolving credit sales and also to time payment charges associated with revolving credit sales.
- (b) Conference action: Agreed to retain this provision with an amendment defining the term "installment plan" to include a revolving credit type plan which provides that the purchaser of personal property at retail may pay for such property in a series of periodic payments of an agreed portion of the amounts due the dealer under the plan, except that such term does not include any such plan with respect to a purchaser who uses his account primarily as an ordinary charge account. In addition, deleted the provisions relating to time payment charges. [SA No. 96—HR with an amendment]

12. Deduction of contested liabilities (sec. 223)—

- (a) Revision: Adopts H.R. 4040, reported by the House Committee on Ways and Means, which allows a taxpayer to take a deduction in the taxable year in which he pays a tax or other liability even though he contests the liability.
- (b) Conference action: Agreed to this provision with an amendment that this provision is not to apply in respect of any credit against tax nor in respect of the deduction for income, war profits, and excess profits taxes imposed by the authority of any foreign country or possession of the United States. [SA No. 97—HR with an amendment]

13. Insurance companies (sec. 228)—

Mutualization—

- (a) Revision: Permits the special liquidating distribution deduction treatment, for life insurance companies, of present law to apply to distribution in 1962.
- (b) Conference action: Agreed to retain this provision. [SA No. 162—HR]

Accrual of bond discount—

- (a) Revision: Treats market discount on bonds owned by life insurance companies and by small mutual fire and casualty insurance companies as capital gains when the bonds are sold or redeemed.
- (b) Conference action: Agreed to retain this provision in the act. [SA No. 162—HR]

Contributions to qualified pension plans—

- (a) Revision: Makes it clear that a deduction will be allowable to casualty insurance companies for their contributions to qualified pension plans.
- (b) Conference action: Agreed to retain this provision. [SA No. 162—HR]

14. Regulated investment companies (sec. 229)—

Time for mailing notices—

- (a) Revision: Extends from 30 days to 45 days the time within which regulated investment companies must mail certain notices out to their shareholders. Similar to H.R. 6995 reported by the Committee on Ways and Means.
- (b) Conference action: Agreed to retain this provision in the act. [SA No. 163—HR]

Unit investment trusts—

- (a) Revision: Provides that in the case of a redemption by a unit investment trust, the redemption will not be considered as a "preferential dividend." Thus the trust will receive a dividends paid deduction for the entire amount of accumulated earnings and profits distributed to the redeeming shareholder.
- (b) Conference action: Agreed to retain this provision in the act. [SA No. 163—HR]

B. Other provisions—Continued

15. Foreign tax credits—

- (a) Revision: Provides that any excess foreign tax credit which arises from mineral extraction, because of the percentage depletion allowance under U.S. law, may not be used to offset U.S. tax on other foreign income unrelated to mineral extraction, processing, transportation, marketing, or similarly related activity.

(b) Conference action: Agreed to delete this provision from the act. [SA No. 164—SR]

16. Sale of residence of employee—

- (a) Revision: Provides that amounts received by employees as reimbursement for selling expenses and losses resulting from the forced sale of their house in connection with a transfer of employment are to be treated as proceeds from the sale of the house rather than as compensation.

(b) Conference action: Agreed to delete this provision from the act. [SA No. 165—SR]

17. Small business corporations (sec. 233)—

Certain distributions of money—

- (a) Revision: Provides that in the case of subchapter S corporations, certain distributions of money made within 2½ months after a taxable year may be treated as having been made during the preceding taxable year.

(b) Conference action: Agreed to retain this provision in the act. [SA No. 177—HR]

Ownership of certain stock—

- (a) Revision: Provides in general that a corporate member of an affiliated group may elect subchapter S treatment if the only other members of the group are inactive subsidiary corporations. Similar to H.R. 8798 reported by the Committee on Ways and Means.

(b) Conference action: Agreed to retain this provision in the act. [SA No. 177—HR]

18. Tax liens (sec. 236)—

- (a) Revision: Provides that purchasers, mortgagees, and pledgees of motor vehicles will not be subject to a Federal tax lien against motor vehicles unless they have actual notice or knowledge of the existence of the Government's lien.

(b) Conference action: Agreed to this provision with an amendment that the lien is not to be valid with respect to a motor vehicle as against a purchaser (not a mortgagee or pledgee) if at the time of the purchase the purchaser is without notice or knowledge of the existence of such lien and before the purchaser obtains such notice or knowledge, he acquires possession of the motor vehicle and does not thereafter relinquish possession of the motor vehicle to the seller or his agent. It was agreed also that the tax lien will abate with respect to the motor vehicle in question and will not be valid against any subsequent purchaser (or other successor in interest) of the vehicle. [SA No. 193—HR with an amendment]

SUMMARY OF SENATE FLOOR AMENDMENTS AND CONFERENCE ACTION ON SUCH AMENDMENTS

The following represents a thumbnail sketch of the floor amendments made by the Senate to H.R. 8363 as reported by the Senate Committee on Finance. Also summarized is the action taken by the conferees with respect to such amendments. (Key: HR—House recedes; SR—Senate recedes.)

1. *Group term insurance (sec. 204)*—

(a) Amendment: Permits employees to designate a charity as the beneficiary of group term life insurance by May 1, 1964, in which case no amount would be includable in gross income with respect to group term insurance for the period January 1, 1964, through April 30, 1964.

(b) Conference action: Agreed to retain this amendment in the act. [SA No. 29—HR]

2. *Wage continuation payments (sec. 205)*—

(a) Amendment: Makes the 30-day waiting period inapplicable where the employee's "sick pay" is less than 75 percent of his regular weekly rate of wages.

(b) Conference action: Modified the amendment to provide that within the 30-day period if the sick pay is 75 percent or less of the regular weekly rate, then up to \$75 a week may be excluded after an absence of 7 calendar days on account of injuries or illness and from the first day without any waiting period, if the taxpayer is hospitalized at least 1 day in the first 7. [SA No. 31—HR with an amendment]

3. *Earned income of U.S. citizens abroad (sec. 237)*—

(a) Amendment: Reduces from \$35,000 to \$6,000 in the case of U.S. citizens who are bona fide residents of a foreign country for more than 3 years and from \$20,000 to \$4,000 in the case of a U.S. citizen who is present in a foreign country for 17 out of 18 consecutive months, the present exclusion allowed to U.S. citizens for earned income from sources without the United States.

(b) Conference action: Agreed to reduce to \$25,000 from \$35,000 the present exclusion allowed U.S. citizens who are bona fide residents of a foreign country for more than 3 years and makes this provision applicable for taxable years beginning after December 31, 1964. Makes no other change in existing law. [SA No. 194—HR with an amendment]

4. *Head of household*—

(a) Amendment: Provides head of household treatment for any individual who maintains a household for any person who is a dependent.

(b) Conference action: Agreed to delete this provision from the act. [SA No. 195—SR]

5. *Deduction for losses of personal residences, etc., seized by Cuba (sec. 238)*—

(a) Amendment: Permits a deduction for losses occasioned by the seizure by Cuba of tangible personal property.

(b) Conference action: Agreed to retain this provision in the act. [SA No. 196—HR with an amendment]

6. *Credit or refund of self-employment tax (sec. 239)*—

(a) Permits refunds of self-employment taxes for persons covered by self-employment tax and by a retroactive social security agreement.

(b) Conference action: Agreed to retain this provision in the act. [SA No. 197—HR with an amendment]

7. *Estate tax on reversionary or remainder interests (sec. 240)*—

(a) Amendment: Provides 3 years (rather than 2 years) after a precedent interest terminates for the payment of estate tax with respect to reversionary or remainder interests if earlier payment results in undue hardship.

(b) Conference action: Agreed to retain this provision in the act. [SA No. 198—HR with an amendment]

8. **Crop insurance proceeds—**
(a) Amendment: Permits insurance proceeds received as a result of destruction or damage to be reported in the year following the year of destruction or damage.
(b) Conference action: Agreed to delete this provision from the act. [SA No. 199—SR]
9. **Deduction for transportation of disabled individuals (sec. 245)—**
(a) Amendment: Provides a deduction of up to \$600 for transportation expenses of going to and from work for disabled individuals.
(b) Conference action: Agreed to delete this provision from the act. [SA No. 200—SR]
10. **Additional personal exemptions for disability—**
(a) Amendment: Provides an extra \$600 exemption for a disabled taxpayer or a disabled spouse.
(b) Conference action: Agreed to delete this provision from the act. [SA No. 201—SR]
11. **Time for filing a claim for refund of gasoline taxes—**
(a) Amendment: Permits the Secretary to honor a claim of taxes paid for gasoline used on farms which is filed after the statutory period for filing the refund claim (June 30 to September 30) if the claimant had good cause for failure to file a timely claim.
(b) Conference action: Agreed to delete this provision from the act. [SA No. 202—SR]
12. **Water or air pollution—**
(a) Amendment: Allows a double investment credit for facilities or equipment to control water or air pollution.
(b) Conference action: Agreed to delete this provision from the act. [SA No. 203—SR]

Sec. 1. Declaration

Present law	Treasury recommendations	H.R. 8363 as passed by the House of Representatives
		Declaration: It is the sense of Congress that the tax reduction provided by this act through stimulation of the economy, will, after a brief transitional period, raise (rather than lower) revenues and that such revenue increases should first be used to eliminate the deficits in the administrative budgets and then to reduce the public debt. To further the objective of obtaining balanced budgets in the near future, Congress by this action, recognizes the importance of taking all reasonable means to restrain Government spending and urges the President to declare his accord with this objective.

Sec. 2.

Present law	Treasury recommendations	H.R. 8363 as passed by the House of Representatives
		Title of the bill is to be cited as the "Revenue Act of 1963."

Sec. 111. Reduction

Present law	Treasury recommendations	H.R. 8363 as passed by the House of Representatives
Bottom rate of 20 and top rate of 91 percent.	<p>1. Over 3-year period would reduce bottom rate to 14 percent (also split this bracket in half) and top rate to 65 percent.</p> <p>2. Effective date: About one-quarter of rate reduction would be effective for calendar year 1963; another half for calendar year 1964; and final one quarter for calendar year 1965.</p>	<p>1. Over 2-year period reduces bottom rate to 14 percent and top rate to 70 percent. Bottom \$2,000 bracket (for single taxpayer) is split into 4 \$500 brackets taxable at 14, 15, 16, and 17 percent.</p> <p>2. Effective date: Tax rate reductions are generally effective as of Jan. 1, 1964, and Jan. 1, 1965.</p>

Sec. 112. Minimum

Present law	Treasury recommendations	H.R. 8363 as passed by the House of Representatives
No comparable provision. In lieu of itemizing deductions, a taxpayer may elect to take a standard deduction of 10 percent of his adjusted gross income (but limited to a maximum of \$1,000).	<p>Would allow a minimum standard deduction of \$300 for each taxpayer plus \$100 for each dependent, including a spouse (maximum of \$1,000).</p> <p>Effective date: Would be effective for taxable years beginning after Dec. 31, 1963.</p>	<p>Permits a minimum standard deduction of \$300 for each taxpayer plus \$100 for every exemption allowed him (maximum of \$1,000).</p> <p>Effective date: Generally effective as of Jan. 1, 1964.</p>

I
by Congress

H.R. 8363 as ordered reported by Senate Committee on Finance	H.R. 8363 as passed by the Senate	H.R. 8363 as agreed to by the conferees (Public Law)
Deletes this provision [SA No. 1]----	Deletes this provision-----	Same as House version [SA No. 1—SR].

Short title

H.R. 8363 as ordered reported by Senate Committee on Finance	H.R. 8363 as passed by the Senate	H.R. 8363 as agreed to by the conferees (Public Law)
Title of the bill is to be cited as the “Revenue Act of 1964” [SA No. 3].	Same as reported by Finance Com- mittee	Same as Finance Committee version [SA No. 3—HR].

of tax on individuals

H.R. 8363 as ordered reported by Senate Committee on Finance	H.R. 8363 as passed by the Senate	H.R. 8363 as agreed to by the conferees (Public Law)
Same as House provision-----	Same as House provision-----	Same as House version.

standard deduction

H.R. 8363 as ordered reported by Senate Committee on Finance	H.R. 8363 as passed by the Senate	H.R. 8363 as agreed to by the conferees (Public Law)
Same as House provision-----	Same as House provision-----	Same as House version.

Present law	Treasury recommendations	H.R. 8363 as passed by the House of Representatives
<p>(a) Retirement income credit: A tax credit on retirement is provided for passive investment or pension income received by persons generally over age 65. However, the income taken into account for this credit must be reduced for tax exempt social security or railroad retirement income, and for those under age 72, for income derived from work above a specified income level. In computing the credit, present law provides that the income eligible for the credit is to be multiplied by the "rate provided in sec. 1 for the first \$2,000 of taxable income." This rate is 20 percent under present law.</p> <p>(b) Tax on nonresident alien individuals: Nonresident aliens receiving income from sources within the United States such as interest, dividends, rents, salaries, wages, etc., generally are taxed on such income at a flat 30-percent rate (unless applicable tax treaties provide some other rate). However, present law provides that if the nonresident alien receives more than \$15,400 from specified sources within the United States, then the regular individual income tax will apply with respect to the nonresident alien's income from sources within the United States (if this results in a higher tax than the flat rate 30-percent tax).</p>	<p>-----</p> <p>-----</p>	<p>(a) Retirement income credit: The rate of tax to be used in computing this credit is to be 15 percent.</p> <p>(b) Tax on nonresident alien individuals: The income level of \$15,400 has been established at \$21,200.</p>

Sec. 121. Reduction

Present law	Treasury recommendations	H.R. 8363 as passed by the House of Representatives
<p>A total general corporate rate of 52 percent consisting of a 30-percent normal tax applying to all corporate income and a 22-percent surtax rate applying to corporate income in excess of \$25,000.</p>	<p>Would reduce the general corporate rate from 52 to 50 percent in 1964 and to 47 percent in 1965. Would also reverse the normal and surtax rates: (1) normal tax reduced from 30 to 22 percent for calendar year 1963 and subsequent years; (2) the 22-percent surtax rate increased to 30 percent for calendar year 1963, then reduced to 28 percent for calendar year 1964 and further reduced to 25 percent for calendar 1965 and subsequent years.</p>	<p>Reduces the general corporate rate from 52 to 50 percent in 1964 and to 48 percent in 1965. Reverses the normal and surtax rate: (1) normal tax is reduced from 30 to 22 percent for 1964 and years thereafter; (2) the 22-percent surtax rate is to be 28 percent for 1964 and 26 percent for 1965 and subsequent years.</p>

amendments
income credit
alien individuals

H.R. 8363 as ordered reported by Senate Committee on Finance	H.R. 8363 as passed by the Senate	H.R. 8363 as agreed to by the conferees (Public Law)
(a) Same as House provision-----	(a) Modified so that rate of tax will be 17% in case of a taxable year beginning in 1964, or 15 percent in case of a taxable year beginning after December 31, 1964 [SA No. 4].	(a) Same as Senate version [SA No. 4—HR].
(b) Same as house provision-----	(b) Same as House provision-----	(b) Same as House version.

of tax on corporations

H.R. 8363 as ordered reported by Senate Committee on Finance	H.R. 8363 as passed by the Senate	H.R. 8363 as agreed to by the conferees (Public Law)
Same as House provision, except for a technical clarifying amendment (re- lating to the surtax exemption). [SA No. 5].	Same as reported by Finance Com-	Same as Finance Committee version [SA No. 5—HR].

Present law	Treasury recommendations	H.R. 8363 as passed by the House of Representatives
Calendar-year corporation pays 25 percent of estimated tax in excess of \$100,000 on Sept. 15 and another 25 percent on Dec. 15 of year in which tax liability arises. Remainder of tax due is paid in subsequent year in 2 equal installments—on Mar. 15 and on June 15.	For calendar-year corporations with tax liability in excess of \$100,000 the 2 installment payments due Mar. 15 and June 15 of the year following the year of liability, would over a 5-year period (1964-68) be advanced to Apr. 15 and June 15 of year of liability. The Sept. 15 and Dec. 15 estimated payments of 25 percent, as under present law, would not be changed. Any liability not in excess of \$100,000 would, as under present law, be payable in 2 installments on Mar. 15 and June 15 of the year following the year of liability. Transitional rule would require that, starting in 1964, the first 2 installments of tax due on Apr. 15 and on June 15 of year of liability would be equal to 5 percent of estimated tax liability and would be increased by an additional 5 percent each year thereafter until 25 percent is reached.	For calendar-year corporations with tax liability in excess of \$100,000 the 2 installment payments due Mar. 15 and June 15 of year following year of liability will, over a 7-year period (1964-70) be advanced to Apr. 15 and June 15 of year of liability. No change is made with respect to the 25-percent installment payments due on Sept. 15 and Dec. 15, nor with respect to tax liability where it does not exceed \$100,000; i.e., if not paid by estimated tax payments, balance is due in 2 equal installments, Mar. 15 and June 15, of year following year of liability. The quarterly percentage increases, which apply only to tax liability in excess of \$100,000, begin with 1 percent in 1964, increasing to 4 percent in 1965, 9 percent in 1966, 14 percent in 1967, 19 percent in 1968, 22 percent in 1969, and 25 percent in 1970 and subsequent years.

Sec. 123. Related
Sec. 123(a). Tax on mutual insurance
Sec 123(b). Receipt of minimum distributions
Sec. 123(c). Amendment

Present law	Treasury recommendations	H.R. 8363 as passed by the House of Representatives
		The following amendments are made to conform to the new rates. (a) Tax on mutual insurance companies (other than life, etc.): Amends sec. 821(a) of the code to provide that for each taxable year beginning after Dec. 31, 1963, the normal tax on mutual insurance companies' taxable income is to be 22 percent of such income or 44 percent of the amount by which such income exceeds \$6,000, whichever is the lesser. That section is also amended to provide that there is imposed on mutual insurance companies' taxable income a surtax computed as provided in sec. 11(c) of the code and as though the mutual insurance companies' taxable income were the taxable income referred to in sec. 11(c). Thus, the surtax rate is 28 percent for a taxable year beginning after Dec. 31, 1963, and before Jan. 1, 1965, and is 26 percent for a taxable year beginning after Dec. 31, 1964. Also makes conforming changes to sec. 821(c)(1).

payments by corporations

H.R. 8363 as ordered reported by Senate Committee on Finance	H.R. 8363 as passed by the Senate	H.R. 8363 as agreed to by the conferees (Public Law)
Same as House provision-----	Same as House provision-----	(a) Same as House version.

**amendments
companies (other than life, etc.)
by domestic corporations
of sec. 242**

H.R. 8363 as ordered reported by Senate Committee on Finance	H.R. 8363 as passed by the Senate	H.R. 8363 as agreed to by the conferees (Public Law)
(a) Same as House provision-----	Same as House provision-----	(a) Same as House version.

Sec. 123. Related
 Sec. 123(a). Tax on mutual insurance
 Sec. 123(b). Receipt of minimum distributions
 Sec. 123(c). Amendment

Present law	Treasury recommendations	H.R. 8363 as passed by the House of Representatives
		<p>(b) Receipt of minimum distributions by domestic corporations: Amends sec. 963(b) of the code to provide a new minimum distribution table for taxable years beginning in 1964 and a new minimum distribution table for taxable years beginning after Dec. 31, 1963.</p> <p>(c) Amendment of sec. 242: Amends sec. 242(a) of the code (relating to deduction for partially tax-exempt interest) to provide that the deduction allowed by the 1st sentence of sec. 242(a) is not allowed for the purpose of any surtax imposed by subtitle A of the code (relating to income taxes).</p>

Sec. 131. Effective date—

Present law	Treasury recommendations	H.R. 8363 as passed by the House of Representatives
		Provides that except for purposes of sec. 21 of the code (relating to effect of changes in rates during a taxable year), the amendments made by pts. I and II of title 1 of the bill apply with respect to taxable years beginning after Dec. 31, 1963.

Sec. 132. Effective date—Fiscal

Present law	Treasury recommendations	H.R. 8363 as passed by the House of Representatives
<p>Effective date—fiscal year taxpayer: In the case of fiscal year taxpayers, sec. 21 of the code provides the general rule that if the effective date of the change of a rate of tax falls on a date other than the 1st day of a taxable year, then tentative taxes are to be computed by applying the rate for the period before the effective date, and the rate for the period on and after such date, to the taxable income for the entire taxable year. The tax for such taxable year is the sum of that proportion of each tentative tax for the number of days in the entire taxable year.</p>	-----	<p>Effective date—fiscal year taxpayer: Amends existing sec. 21(d) of the code (relating to a taxable year beginning before Jan. 1, 1954, and ending after Dec. 31, 1953) to provide rules for applying existing sec. 21(a) to the taxable year of an individual beginning in 1963 and ending in 1964 or beginning in 1964 and ending in 1965. Also provides certain rules for applying existing sec. 21(a) for the purpose of computing the tax liability of a corporation which is subject to the provisions of pt. II of subch. B of ch. 6 of the code (relating to certain controlled corporations), as added by sec. 223(a) of H.R. 8363, for a taxable year beginning in 1963 and ending in 1964.</p>

amendments
companies (other than life, etc.)
by domestic corporations
of sec. 242—Continued

H.R. 8363 as ordered reported by Senate Committee on Finance	H.R. 8363 as passed by the Senate	H.R. 8363 as agreed to by the Conferees (Public Law)
(b) Same as House provision-----	(b) Same as House provision-----	(b) Same as House version.
(c) Same as House provision-----	(c) Same as House provision-----	(c) Same as House version.

General rule

H.R. 8363 as ordered reported by Senate Committee on Finance	H.R. 8363 as passed by the Senate	H.R. 8363 as agreed to by the conferees (Public Law)
Same as House provision-----	Same as House provision-----	Same as House version.

year taxpayers

H.R. 8363 as ordered reported by Senate Committee on Finance	H.R. 8363 as passed by the Senate	H.R. 8363 as agreed to by conferees (Public Law)
Same as House provision-----	Same as House provision-----	Same as House version.

Present law	Treasury recommendations	H.R. 8363 as passed by the House of Representatives
Provides a 4-percent dividend credit and a \$50 dividend exclusion.	Would repeal the 4-percent dividend credit and the \$50 dividend exclusion with respect to dividends received after Dec. 31, 1963.	The 4-percent dividend credit is reduced to 2 percent for 1964, and repealed for subsequent years. The \$50 dividend exclusion is increased to \$100 for 1964 and subsequent years.

Sec. 203. Repeal of requirement that basis

Present law	Treasury recommendations	H.R. 8363 as passed by the House of Representatives
<p>(a) Allows a credit equal to 7 percent of certain types of investment (3 percent in case of most public utilities) which may be offset in full against tax liability up to \$25,000 and against $\frac{1}{4}$ of tax liability above this level. In addition, the base on which depreciation may be taken in the case of assets eligible for the credit must be reduced by amount of the credit.</p> <p>(b) Where lessor passes investment credit on to lessee, the credit is to be based on the fair market value of the property if the property was constructed by lessor; if not constructed by lessor, credit is to be determined from basis of property to lessor.</p> <p>(c) Elevators and escalators are not eligible for the investment credit.</p>	<p>None-----</p> <p>-----</p> <p>-----</p>	<p>(a) In case of property placed in service after June 30, 1963, repeals the provision requiring a 7-percent downward adjustment in basis of property to the extent that the investment credit applies. Basis of the property placed in service prior to this date is to be increased by an equivalent amount.</p> <p>(b) Lessor-lessee: Where lessor passes investment credit on to lessee, the credit is to be based on the fair market value of the property, whether or not the lessor constructed the property; except in the case where members of an affiliated group lease property to another member in which case the credit will continue to be measured by the basis of the lessor.</p> <p>Effective date: Applies with respect to property transferred to a lessee on or after date of enactment.</p> <p>(c) Elevators-escalators. Makes elevators and escalators eligible for the 7-percent investment credit where their construction, reconstruction, or erection is completed after June 30, 1963, or where they are new in the hands of the taxpayer and are acquired after that date.</p> <p>(d) Federal regulatory agencies: (1) In the case of public utility property (eligible for 3-percent credit) Federal regulatory agencies are not, without the taxpayer's consent, for the purpose of establishing the cost of service of the taxpayer, to treat more than a proportionate part of an investment credit as reducing the taxpayer's Federal income tax liabilities; nor are such regulatory agencies permitted to accomplish a similar result by any other method. (2) In the case of other regulated companies (those receiving a 7-percent credit) Federal regulatory agencies are not, without taxpayer's consent, for purposes of establishing the cost of service of the taxpayer, to treat any investment credit allowed him as reducing his Federal income taxes; nor are the agencies to accomplish a similar result by any other method.</p>

received by individuals

H.R. 8363 as ordered reported by Senate Committee on Finance	H.R. 8363 as passed by the Senate	H.R. 8363 as agreed to by the conferees (Public Law)
Same as House provision -----	Same as House provision -----	Same as House version.

of sec. 38 property be reduced by 7 percent

H.R. 8363 as ordered reported by Senate Committee on Finance	H.R. 8363 as passed by the Senate	H.R. 8363 as agreed to by the conferees (Public Law)
(a) Same as House provision but is to apply to property placed in service before Jan. 1, 1964. Thus, no downward adjustment in basis is required with respect to property placed in service after Dec. 31, 1963 (June 30, 1963, under the House bill) [SA Nos. 9 to 18].	(a) Same as reported by Finance Committee.	(a) Same as Finance Committee version [SA Nos. 9 to 18—HR].
(b) Lessor-lessee: Same as House provision.	(b) Same as House provision -----	(b) Same as House version.
(c) Elevators-escalators: Same as House provision.	(c) Same as House provision -----	(c) Same as House version.
(d) Federal regulatory agencies: Same as House provision.	(d) Same as House provision -----	(d) Same as House version.

Present law	Treasury recommendations	H.R. 8363 as passed by the House of Representatives
<p>The cost of group-term life insurance purchased for employees by their employer or employers is not includable in the employees' income as compensation. (But the cost of such insurance provided under a qualified pension, etc., plan is includible in the employee's income.)</p>	<p>Would limit the employee exclusion for premiums on group-term life insurance furnished by his employer to the cost of the first \$5,000 of coverage.</p> <p>The cost of group-term life insurance would be based on a uniform premium table.</p> <p>Effective date: This provision would apply to protection furnished by the employer in taxable years beginning after Dec. 31, 1963.</p>	<p>(a) Limits the employee exclusion for premiums on group-term life insurance furnished through the employer to premiums paid for the 1st \$30,000 of coverage, but excepts from this section a taxpayer whose employment has been terminated and, who either has reached the normal retirement age or has become disabled. The employee will not be taxed where the employer directly or indirectly is the beneficiary or the beneficiary of the policy is a charitable organization.</p> <p>(b) The cost of the insurance protection is determined by using a uniform table or by using the actual cost of the policy, but in either case the cost of the insurance is averaged out on the basis of 5-year age brackets. The cost of protection for employees over age 64 will remain constant.</p> <p>(c) Provides a special deduction for employees where employee contributes more than the cost of the protection provided him.</p> <p>(d) Makes the cost of insurance which is taxable to the employee, subject to the regular income tax withholding provisions.</p> <p>Effective date: Applies with respect to group-term life insurance protection provided after Dec. 31, 1963.</p>

purchased for employees

H.R. 8363 as ordered reported by Senate Committee on Finance	H.R. 8363 as passed by the Senate	H.R. 8363 as agreed to by the conferees (Public Law)
<p>(a) Exclusion: Increases the exclusion with respect to premiums attributable to the first \$70,000 of insurance rather than the first \$30,000 of coverage [SA No. 20].</p> <p>(b) Method of computation: Same as House provision but deletes the actual cost method of computing the cost of group-term insurance [SA No. 21].</p> <p>(c) Special deduction: Deletes the House provision [SA No. 23].</p> <p>(d) Withholding: Deletes withholding requirements of House provision [SA No. 25]. Substitutes in lieu thereof an information return reporting requirement with penalties for failure to file information [SA No. 26]. Effective date: Same as House provision.</p>	<p>(a) Exclusion: Same as reported by Finance Committee except modified to permit employees to designate a charity as the beneficiary of group term life insurance by May 1, 1964, and in such a case no amount would be includible in gross income with respect to group-term insurance for the period January 1, 1964, through April 30, 1964 [SA No. 29].</p> <p>(b) Method of computation: Same as reported by Finance Committee.</p> <p>(c) Special deduction: Same as reported by Finance Committee.</p> <p>(d) Withholding: Same as reported by Finance Committee.</p> <p>Effective date: Same as House provision.</p>	<p>(a) Exclusion: Senate version, modified to provide for an exclusion of \$50,000 [SA No. 29—HR; SA No. 20—HR with an amendment].</p> <p>(b) Method of computation: Same as Finance Committee version [SA No. 21—HR].</p> <p>(c) Special deduction: Same as Finance Committee [SA No. 23—HR].</p> <p>(d) Withholding: Same as Finance Committee version [SA No. 25—HR; SA No. 26—HR with an amendment.]</p> <p>Effective date: Same as House version.</p>

Inclusion in gross income of reimbursed medical expenses

Present law	Treasury recommendations	H.R. 8363 as passed by the House of Representatives
In general, gross income is not to include amounts received through accident or health insurance for medical expenses for personal injuries or sickness.	None-----	Gross income is to include payments received by a taxpayer from health and accident insurance as reimbursement for medical expenses to the extent that the reimbursement payments exceed the actual medical expenses incurred with respect to any one illness or accident. Effective date: Applies with respect to taxable years beginning after Dec. 31, 1963.

Sec. 205. Amounts received

Present law	Treasury recommendations	H.R. 8363 as passed by the House of Representatives
Allows a sick-pay exclusion of up to \$100 a week for a taxpayer who is absent from work because he is injured or hospitalized. The same exclusion is granted to a taxpayer who is sick and not hospitalized except that such exclusion does not apply to the first 7 days of sickness. The sick-pay exclusion also covers those taxpayers who are permanently retired because of disability before the normal retirement age, but only until that time.	Would repeal the sick-pay exclusion, with the exception that disability pension payments for those retired on disability before Jan. 1, 1964, would continue to be eligible for the sick-pay exclusion. Effective date: Would apply with respect to payments received for periods of absence occurring after Dec. 31, 1963.	Makes the sick-pay exclusion of up to \$100 a week applicable only to amounts attributable to those periods of absence from work due to sickness or injury beyond the 1st 30 days. Disability pension payments received by taxpayers permanently retired will continue to be eligible (after 30 days) for the exclusion up to normal retirement age. Effective date: Will apply to wage payments attributable to periods of absence commencing after Dec. 31, 1963.

Sec. 206. Exclusion from gross income of gain on sale or

Present law	Treasury recommendations	H.R. 8363 as passed by the House of Representatives
Where an individual sells his old residence and, within 1 year (either before or after) of that sale, purchases a new residence or within 18 months thereafter builds a new residence, the gain on the sale of the old residence is not recognized to the extent that it, plus the cost or other basis of the old residence, is invested in the new residence. Any gain subject to tax is taxed as capital gain.	None-----	Provides a full exclusion (for 1 time only) from gross income for the gain attributable to the 1st \$20,000 of sales price received from the sale or exchange of a personal residence in the case of taxpayers who have reached age 65 before the sale or exchange occurs, and who have owned and used the property involved as their principal residence for 5 out of the last 8 years before the sale or exchange. The exclusion is elective and may be made or revoked at any time before the expiration of the period for making a claim for credit or refund of income tax with respect to the year in which the sale or exchange occurred. Effective date: Applies with respect to sales, exchanges, and other dispositions of a residence after Dec. 31, 1963.

to the extent that the reimbursement exceeds the expenses

H.R. 8363 as ordered reported by Senate Committee on Finance	H.R. 8363 as passed by the Senate	H.R. 8363 as agreed to by the conferees (Public Law)
Deletes House provision [SA No. 30].	Deletes House provision-----	Same as Finance Committee version. [SA No. 30—HR].

under wage continuation plans

H.R. 8363 as ordered reported by Senate Committee on Finance	H.R. 8363 as passed by the Senate	H.R. 8363 as agreed to by the conferees (Public Law)
Same as House provision-----	Modified House provision to provide that if an employee's "sick pay" is less than 75 percent of his regular weekly rate of wages, then in applying the exclusion of up to \$100 per week, the waiting period under existing law (7 days in the case of sickness; no waiting in the case of injuries or hospitalization) is to apply (rather than the 30-day period under the House bill) [SA No. 31].	Senate version modified to provide that within the 30-day period if the sick pay is 75 percent or less of the regular weekly rate, then up to \$75 a week may be excluded after an absence of 7 calendar days on account of injuries or illness and from the first day without any waiting period if the taxpayer is hospitalized at least 1 day in the first 7. [SA No. 31—HR with an amendment].

exchange of residence of individual who has attained age 65

H.R. 8363 as ordered reported by Senate Committee on Finance	H.R. 8363 as passed by the Senate	H.R. 8363 as agreed to by the conferees (Public Law)
Same as House provision-----	Same as House provision-----	Same as House version.

Present law	Treasury recommendations	H.R. 8363 as passed by the House of Representatives
<p>State and local taxes paid or accrued by a taxpayer generally are deductible for Federal income tax purposes except death and gift taxes and most local improvement taxes. In addition, no deduction is allowed from gross income for Federal taxes paid except to the extent that Federal import duties and Federal excise and stamp taxes qualify as business expenses or expenses incurred in the production of income.</p>	<p>Would limit the total of all itemized deductions (including interest, taxes, charitable contributions, casualty losses, etc.) to amounts in excess of 5 percent of taxpayer's adjusted gross income.</p> <p>Effective date: Would apply to taxable years beginning after Dec. 31, 1963.</p>	<p>(a) Denies a deduction in computing income subject to Federal tax for State and local taxes other than (1) State and local personal property taxes; (2) State and local, and foreign, real property taxes; (3) State and local, and foreign, income, war profits, and excess profits taxes; and (4) State and local general sales taxes. Thus, State and local gasoline taxes and automobile registration fees (including auto tags and drivers' licenses) would not be deductible. This section has no application to the extent that the taxes paid or incurred represent trade or business expenses or expenses incurred in the production of income.</p> <p>(b) Definitions: (1) A personal property tax which may be deducted is defined as an ad valorem tax imposed on an annual basis in respect of personal property. (2) A general sales tax which may be deducted is defined as a tax imposed at 1 rate with respect to the sale at retail of a broad range of classes of items. Also included within the definition is a compensating use tax.</p> <p>(c) Deletes the provision of existing law which allows certain very limited local improvement taxes to be deductible.</p> <p>Effective date: Applies with respect to taxable years beginning after Dec. 31, 1963.</p>

Sec. 208. Personal

Present law	Treasury recommendations	H.R. 8363 as passed by the House of Representatives
<p>Deductions for losses of property, not connected with a trade or business, which arise from fire, storm, shipwreck, or other casualty, or from thefts, are available without limitation to all taxpayers who itemize their personal deductions. In addition, losses incurred in a taxpayer's trade or business or losses incurred in connection with transactions entered into for profit are deductible.</p>	<p>In the case of taxpayers who itemize their personal deductions, would limit deductible casualty and theft losses to those in excess of 4 percent of taxpayer's adjusted gross income.</p> <p>Effective date: Would apply to taxable years beginning after Dec. 31, 1963.</p>	<p>Limits the deduction for personal casualty and theft losses to the amount in excess of \$100 for each casualty or theft. The \$100 limitation applies a joint return by a husband and wife as well as to a separate return of either. No limitation is placed by this section on trade or business losses or losses incurred in connection with transactions entered into for profit.</p> <p>Effective date: Applies with respect to losses sustained after Dec. 31, 1963.</p>

certain State, local, and foreign taxes

H.R. 8363 as ordered reported by Senate Committee on Finance	H.R. 8363 as passed by the Senate	H.R. 8363 as agreed to by the conferees (Public Law)
<p>(a) Amends the House provision to restore the deductibility of State and local gasoline taxes and automobile registration fees (including auto tags and drivers' licenses) [SA No. 32].</p> <p>(b) Same as House provision-----</p> <p>(c) Amends House provision to restore a deduction for taxes levied by a district described in sec. 164(b)(5)(B) of the code for the purpose of retiring indebtedness existing on December 31, 1963 [SA No. 35]. Effective date: Same as House provision except as provided in (c) above.</p>	<p>(a) Same as reported by Finance Committee.</p> <p>(b) Same as House provision-----</p> <p>(c) Same as reported by Finance Committee.</p> <p>Effective date: Same as reported by Finance Committee.</p>	<p>(a) Same as House version except that it continues the deductibility of State and local gasoline, diesel fuel and other fuels taxes [SA No. 32—HR with an amendment].</p> <p>(b) Same as House version.</p> <p>(c) Same as Finance Committee version [SA No. 35—HR].</p> <p>Effective date: Same as Finance Committee version.</p>

casualty and theft losses

H.R. 8363 as ordered reported by Senate Committee on Finance	H.R. 8363 as passed by the Senate	H.R. 8363 as agreed to by the conferees (Public Law)
<p>Same as House provision-----</p>	<p>Same as House provision-----</p>	<p>Same as House version.</p>

Present law	Treasury recommendations	H.R. 8363 as passed by the House of Representatives
<p>(a) In general, individuals are allowed a deduction of up to 20 percent of their adjusted gross income for contributions to or for the use of charitable, educational, religious, etc., organizations. An additional 10-percent deduction is allowed for contributions to churches, schools, hospitals, certain medical research organizations, and certain organizations affiliated with State colleges or universities.</p> <p>(b) Carryover for corporations: Corporations are allowed a maximum charitable contribution deduction of 5 percent of their taxable income computed without regard to this and certain other deductions. In addition, a corporation is permitted a 2-year charitable contribution carryover.</p> <p>(c) Gift of future interest: A taxpayer who gives property to charity but retains for either his or someone else's life or any other period the use or enjoyment of the property, receives a charitable contribution deduction for income tax purposes, at the time of the gift of the future interest, equal to the present discounted value of that future interest.</p> <p>(d) Unlimited deduction: An unlimited charitable contributions deduction is permitted for contributions in cases where the contributions plus taxes equal 90 percent or more of the taxpayer's taxable income in the taxable year and in 8 out of the 10 preceding taxable years.</p>	<p>Would increase the maximum charitable contributions deduction from 20 to 30 percent for all contributions except those to private foundations.</p> <p>Effective date: Would apply to taxable years beginning after Dec. 31, 1963.</p> <hr/> <p>Unlimited deduction: Would eliminate this deduction for all taxable years beginning after Dec. 31, 1963.</p>	<p>(a) 30-percent deduction: Allows a 30-percent maximum charitable contributions deduction generally for contributions to organizations other than private foundations.</p> <p>Effective date: Applies with respect to taxable years beginning after Dec. 31, 1963.</p> <p>(b) Carryover for corporations: In the case of corporations, extends the 2-year carryover of charitable contributions to 5 years.</p> <p>Effective date: Applies with respect to contributions paid (or treated as paid) in taxable years beginning after Dec. 31, 1963.</p> <p>(c) Gift of future interest: Denies a charitable contributions deduction for future interests in tangible personal property until the donor's (and certain related parties') interest in the property expires or is relinquished, except where the right to the property is retained for the life or lives of the donor or donors.</p> <p>Effective date: Applies with respect to transfers after Dec. 31, 1963.</p> <p>(d) Unlimited deduction: Makes no change in existing law.</p>

H.R. 8363 as ordered reported by Senate Committee on Finance	H.R. 8363 as passed by the Senate	H.R. 8363 as agreed to by the conferees (Public Law)
<p>(a) 30-percent deduction: Same as House provision.</p> <p>(b) Carryover for corporations: Same as House provision. Effective date: Modified House provision so as to apply with respect to contributions paid (or treated as paid) in taxable years beginning after Dec. 31, 1961 [SA No. 42].</p> <p>(c) Gift of future interests: Modified House provision to deny a deduction in any case where a life interest is reserved (whether reserved for the donor's life or anyone else's life) [SA No. 41].</p> <p>(d) Unlimited deduction: Amends the unlimited charitable contributions deduction so as to make that deduction unavailable in the case of charitable contributions to private foundations (i.e., those not eligible for the 30-percent charitable contributions deduction under the House bill) [SA No. 36].</p>	<p>(a) 30-percent deduction: Same as House provision.</p> <p>(b) Carryover for corporations: Same as House provision. Effective date: Same as reported by Finance Committee.</p> <p>(c) Gift of future interests: Same as reported by Finance Committee.</p> <p>(d) Unlimited deductions: Same as reported by Finance Committee.</p>	<p>(a) 30-percent deduction: Same as House version.</p> <p>(b) Carryover for corporations: Same as House version. Effective date: Same as Finance Committee version [SA No. 42—HR with an amendment].</p> <p>(c) Gift of future interests: Same as Finance Committee version modified to make provision effective July 1, 1964 [SA No. 41—HR; SA No. 42—HR with an amendment].</p> <p>(d) Unlimited deductions: Same as Finance Committee version but modified to provide that the unlimited charitable contribution deduction will be available in the case of contributions to organizations "not supported by the general public" (1) where the foundation is itself an "operating foundation" or (2) where the organization pays out (either uses it itself for the charitable purpose or gives it to another organization which uses it for the charitable purpose) within a 3-year period an amount equal to 50 percent or more of the contribution, and all of the income of the organization through the taxable year in which the 50-percent test is met. Such an organization will not qualify, however, if any part of income or corpus is lent to the donor of the contribution, any member of his family, any employee of his, any officer or employee of a corporation in which he owns directly or indirectly 50 percent of the stock, or any partner or employee of a partnership where he owns directly or indirectly a 50-percent interest in the partnership; neither can the foundation pay compensation to this same group of persons (except to the extent of reasonable compensation for actual personal services), nor make the services provided by the foundation available to them on a preferential basis, nor buy any property or securities (except minimal amounts) from them nor sell any but minimal amounts to them. Effective date: Applies to contributions made on or after date of enactment of the act [SA No. 36—HR with an amendment].</p>

Present law	Treasury recommendations	H.R. 8363 as passed by the House of Representatives
<p>(e) Carryover for individuals: An individual is not allowed a carryover of a deduction from one year to the next for excess charitable contributions.</p>		

Sec. 211. 1-percent limitation

Present law	Treasury recommendations	H.R. 8363 as passed by the House of Representatives
<p>If a taxpayer itemizes his deductions, he is allowed to deduct only those medical expenses which exceeded 3 percent of his adjusted gross income. In computing his medical expenses, which are subject to the 3-percent limit, medicines and drugs may be taken into account only if they exceed 1 percent of his adjusted gross income. The 1-percent limitation applies to all taxpayers without regard to their age. The 3-percent limitation does not apply in the case of medical expenses of the taxpayer and his spouse where either of them is 65 or over nor in the case of medical expenses of the mother or father of the taxpayer or his spouse where the parent is 65 or over and is a dependent of the taxpayer.</p>	<p>(a) In the case of medical expenses of persons under 65 years of age, would substitute a 4-percent floor on medical expenses generally for the separate 3-percent floor on medical expenses and the 1-percent floor on medicine and drugs. In the case of medical expenses of persons 65 or over, there would be no floor.</p> <p>(b) Would remove the ceilings on medical deductions so as to permit all taxpayers to deduct the full amount of their eligible medical expenses.</p> <p>(c) Would amend the definition of medical expenses which qualify for deduction to permit a deduction for the cost of facilities, services, and devices (such as a clarinet, dancing lessons, swimming pools, air conditioners, etc.) only if they were of a type customarily used primarily for medical purposes, and were in fact intended primarily for medical use of the taxpayer or a dependent.</p> <p>(d) The deductibility of expenses for medicines and drugs would be limited to those purchased pursuant to a doctor's prescription.</p> <p>(e) Would limit the deductibility of certain transportation expenses as medical expenses.</p> <p>(f) In the case of insurance premiums paid by a taxpayer on a policy which covers both medical and non-medical protection, only the portion of the premium attributable to medical protection would qualify as a medical expense.</p> <p>Effective date: Would apply to taxable years beginning after Dec. 31, 1963.</p>	<p>The 1-percent limitation on medicines and drugs which must be taken into account in determining deductible medical expenses is made inapplicable in the case of amounts paid for the care of the taxpayer and his spouse if either of them has attained age 65 before the end of the taxable year and also in the case of amounts paid for the care of a dependent mother or father of the taxpayer or his spouse if the mother or father has attained age 65 before the end of the taxable year and is a dependent of the taxpayer.</p> <p>Effective date: Applies with respect to taxable years beginning after Dec. 31, 1963.</p>

H.R. 8363 as ordered reported by Senate Committee on Finance	H.R. 8363 as passed by the Senate	H.R. 8363 as agreed to by the conferees (Public Law)
<p>Effective date: Applies to taxable years beginning after Dec. 31, 1963. Thus, prior law will apply when any year prior to 1964 is taken into account and the new rules will be applicable with respect to any computation involving 1964 or a subsequent year.</p> <p>(e) Carryover for individuals: In the case of individuals, provides a 5-year carryover for such individuals with respect to excess contributions that qualify in the 30-percent category (as amended by the House bill). No contribution may be carried to or through a year with respect to which the taxpayer has elected the unlimited charitable contributions deduction.</p> <p>Effective date: Applies with respect to contributions paid in taxable years beginning after Dec. 31, 1963 [SA No. 37].</p>	<p>Effective date: Same as reported by Finance Committee.</p> <p>(e) Carryover for individuals: Same as reported by Finance Committee.</p> <p>Effective date: Same as reported by Finance Committee.</p>	<p>Effective date: Same as Finance Committee version.</p> <p>(e) Carryover for individuals: Same as Finance Committee version [SA No. 37—HR].</p> <p>Effective date: Same as Finance Committee version.</p>

H.R. 8363 as ordered reported by Senate Committee on Finance	H.R. 8363 as passed by the Senate	H.R. 8363 as agreed to by the conferees (Public Law)
Same as House provision.....	Same as House provision.....	Same as House version.

Present law	Treasury recommendations	H.R. 8363 as passed by the House of Representatives
<p>(a) Amount deductible: Allows a deduction of up to \$600 for expenses incurred for child care, without regard to the number of children or other dependents of the taxpayer.</p> <p>(b) Eligible taxpayers: The class of taxpayers allowed the deduction are (1) women that are single, are divorced or separated (or, in some cases deserted), or are widows; (2) men who are widowed, divorced, or legally separated; and (3) working wives.</p> <p>(c) Age limit: The child of the taxpayer for whom this deduction is granted must be a son, daughter, stepson, or step-daughter of the taxpayer and must be under age 12, or must be a dependent who is physically or mentally incapable of caring for himself.</p> <p>(d) Income limitation: In the case of working wives, the \$600 deduction is available only if the combined adjusted gross income of the wife and husband who file a joint return does not exceed \$4,500. The deduction available is decreased \$1 for each \$1 of income above \$4,500, but this \$4,500 limitation does not apply if the husband is incapable of self-support because mentally or physically defective.</p>	<p>(a) Amount deductible: Would increase the deduction from \$600 per year per taxpayer to \$900 for a taxpayer with 2 dependents and to \$1,000 for a taxpayer with more than 2 dependents.</p> <p>(b) Eligible taxpayers: Would expand the class of taxpayers allowed the deduction to include (1) a man whose wife is incapacitated (or institutionalized) for a period of 90 days or more.</p> <p>(c) Age limit: The under-12-year age limit would be extended to cover expenses for care of children under 13 years of age.</p> <p>(d) Income limitation: Would increase the present \$4,500 limitation on the joint husband-wife income to \$7,000. Effective date: Would apply to taxable years beginning after Dec. 31, 1963.</p>	<p>(a) Amount deductible: Increases the maximum annual deduction from \$600 to \$900 where there are 2 or more qualified dependents, except that the additional \$300 is not to be available to a working wife (unless her husband is incapable of self-support).</p> <p>(b) Eligible taxpayers: Expands the class of taxpayers allowed the deduction to include a husband (1) where his wife is incapacitated in which case the deduction is fully available only where the adjusted gross income of the taxpayer and his spouse does not exceed \$4,500 (the deduction decreases \$1 for each \$1 of income above \$4,500); (2) where the wife is institutionalized for a period of 90 days or more in which case the \$4,500 limitation does not apply.</p> <p>(c) Age limit: Increases the under-12 age bracket to cover expenses for care of children under 13 years of age.</p> <p>(d) Income limitation: Makes no change in existing law in the case of working wives or in the case of husbands with incapacitated wives. Effective date: Applies with respect to taxable years beginning after Dec. 31, 1963.</p>

Sec. 213.

Present law	Treasury recommendations	H.R. 8363 as passed by the House of Representatives
<p>(a) Reimbursed expenses: (1) old or existing employees:</p> <p>(i) moving of household goods and personal effects—excludable. (ii) transportation costs of employee and family—excludable. (iii) meals and lodging in transit—excludable. (iv) house hunting—includible in gross income, but no deduction allowed. (v) temporary living allowances—no exclusion or deduction allowed by IRS, but exclusion permitted by Tax Court in <i>Cavanagh</i>, 36 T.C. 300.</p>	<p>(a) Reimbursed expenses: (1) old or existing employees:</p> <p>(i) moving of household goods and personal effects—includible in gross income, but allows a deduction for all employees, whether or not they itemize. (ii) transportation costs of employee and family—same as (i) above. (iii) meals and lodging in transit of employee and family—same as (i) above. (iv) house hunting—includible in gross income but no deduction allowed. (v) temporary living allowances—same as (iv) above.</p>	<p>(a) Reimbursed expenses: (1) old or existing employees: Does not change present law as outlined in col. No. 1.</p>

of dependents

H.R. 8363 as ordered reported by Senate Committee on Finance	H.R. 8363 as passed by the Senate	H.R. 8363 as agreed to by the conferees (Public Law)
<p>(a) Amount deductible: Increases the maximum annual deduction from \$600 to \$900 for a taxpayer with 2 dependents and to \$1,000 for a taxpayer who has 3 or more dependents [SA No. 46].</p> <p>(b) Eligible taxpayers: Same as House provision but increases the income limitation to \$7,000 from \$4,500 in cases where the wife is incapacitated [SA No. 47].</p> <p>(c) Age limit: Same as House provision.</p> <p>(d) Income limitation: Increases the present \$4,500 limitation to \$7,000 in the case of working wives and in the case of husbands with incapacitated wives [SA No. 47]. Effective date: Same as House provision.</p>	<p>(a) Amount deductible: Same as reported by the Finance Committee.</p> <p>(b) Eligible taxpayers: Same as reported by Finance Committee.</p> <p>(c) Age limit: Same as House provision.</p> <p>(d) Income limitation: Same as reported by Finance Committee.</p> <p>Effective date: Same as House provision.</p>	<p>(a) Amount deductible: Same as House version except that the additional \$300 is available to a working wife [SA No. 46—HR with an amendment].</p> <p>(b) Eligible taxpayers: Same as Finance Committee version modified to provide for an income limitation of \$6,000 [SA No. 47—HR with an amendment].</p> <p>(c) Age limit: Same as House version.</p> <p>(d) Income limitation: Same as Finance Committee version except that the income limitation is \$6,000. [SA No. 47—HR with an amendment]. Effective date: Same as House version.</p>

Moving expenses

H.R. 8363 as ordered reported by Senate Committee on Finance	H.R. 8363 as passed by the Senate	H.R. 8363 as agreed to by the conferees (Public Law)
<p>(a) Reimbursed expenses: (1) Old or existing employees: Same as House provision. (But see new provision in sec. 232 of the Finance Committee bill relating to treatment of reimbursements of loss on sale of residence by certain transferred employees explained in (i) below.)</p>	<p>(a) Reimbursed expenses: (1) Old or existing employees: Same as reported by Finance Committee.</p>	<p>(a) Reimbursed expenses: (1) Old or existing employees: Same as House version.</p>

Present law	Treasury recommendations	H.R. 8363 as passed by the House of Representatives
<p>(vi) loss on sale of personal residence—includible in gross income, but no deduction allowed. The Tax Court and the 4th circuit in <i>Bradley</i>, 39 T.C. 652, held reimbursement to be compensation and overruled <i>Schairer</i>, 9 T.C. 549 (which had permitted reimbursement to be treated as part of sales price of residence).</p> <p>(2) new employees: Includible in gross income, but no deduction allowed.</p> <p>(b) Nonreimbursed expenses: No deduction is allowed for any moving expenses whether old or new employee.</p>	<p>(vi) loss on sale of personal residence—same as (iv) above.</p> <p>(2) new employees: Would provide same treatment for new employees on items listed above as for old employees.</p> <p>(b) Nonreimbursed expenses: Allows a deduction in case of items (i), (ii), and (iii) above, regardless of whether deductions are itemized. No deduction allowed for items (iv), (v), and (vi) above.</p> <p>Effective date: Would apply to expenses incurred with respect to moves made after Dec. 31, 1963.</p>	<p>Loss on sale of personal residence: Does not change present law as outlined in col. No. 1.</p> <p>(2) new employees: Allows a deduction for reasonable expenses of:</p> <ul style="list-style-type: none"> (i) moving household goods and personal effects. (ii) transportation costs of employee and family. (iii) meals and lodging in transit of employee and family. <p>(b) Nonreimbursed expenses: Allows a deduction similar to those allowed in (2) above, whether old or new employee.</p> <p>(c) Mileage limitation: The new deduction is not available unless the employee's commuting distance to his new principal place of work is at least 20 miles more than it was to his former principal place of work; or if he never worked or was unemployed for a long time, the commuting distance between his former residence and his new principal place of work must be at least 20 miles.</p> <p>(d) Employment period: The employee must remain employed in the new locality, on a full-time basis, for at least 39 weeks in the 12-month period immediately following his arrival in the general area of his new principal place of work.</p> <p>(e) Withholding: Redefines the term "wages" for withholding tax purposes to exclude reimbursement for which it is reasonable to believe that a moving expense deduction is allowable.</p> <p>Effective date: Applies with respect to moving expenses incurred after Dec. 31, 1963, in taxable years ending after that date.</p>

H.R. 8363 as ordered reported by Senate Committee on Finance	H.R. 8363 as passed by the Senate	H.R. 8363 as agreed to by the conferees (Public Law)
<p>(i) Loss on sale of personal residence: In cases where an employer reimburses an employee for certain expenses in connection with the sale of his house, such reimbursement is to be treated as a part of the sales price of the house rather than compensation received by the employee. The reimbursement referred to is to cover any losses by the employee attributable to the forced sale of his house and also the selling expenses incurred by him in connection with that sale. (Added by sec. 232 of the Finance Committee bill.)</p> <p>Effective date: Applies to reimbursements received with respect to sales contracts entered into after Dec. 31, 1963, in taxable years ending after such date [SA No. 165].</p> <p>(2) New employees: Same as House provision.</p> <p>(b) Nonreimbursed expenses: Same as House provision.</p> <p>(c) Mileage limitation: Same as House provision.</p> <p>(d) Employment period: Same as House provision.</p> <p>(e) Withholding: Same as House provision but modified to apply with respect to remuneration paid after one week following date of enactment [SA No. 52].</p> <p>Effective date: Same as House provision.</p>	<p>(i) Loss on sale of personal residence: Same as reported by Finance Committee.</p> <p>Effective date: Same as reported by Finance Committee.</p> <p>(2) New employees: Same as House provision.</p> <p>(b) Nonreimbursed expenses: Same as House provision.</p> <p>(c) Mileage limitation: Same as House provision.</p> <p>(d) Employment period: Same as House provision.</p> <p>(e) Withholding: Same as reported by Finance Committee.</p> <p>Effective date: Same as House provision.</p>	<p>(i) Loss on sale of personal residence: Same as House version, i.e., present law [SA No. 165—SR].</p> <p>(2) New employees: Same as House version.</p> <p>(b) Nonreimbursed expenses: Same as House version.</p> <p>(c) Mileage limitation: Same as House version.</p> <p>(d) Employment period: Same as House version.</p> <p>(e) Withholding: Same as Finance Committee version [SA No. 52—HR].</p> <p>Effective date: Same as House version.</p>

Present law	Treasury recommendations	H.R. 8363 as passed by the House of Representatives
<p>(a) Borrowing for premiums: A taxpayer is allowed an interest deduction in cases where he purchases an insurance contract with the intention of borrowing the maximum amount of the contract each year, unless the contract falls within one of the following categories, in which case no interest deduction is allowed:</p> <p>(i) in case of indebtedness incurred or continued to purchase, or carry, a single premium life insurance, endowment, or annuity contract;</p> <p>(ii) in cases where substantially all the premiums on a contract are paid within 4 years of the date on which the contract was purchased;</p> <p>(iii) in cases where a purchaser borrows an amount equal to a substantial portion of the premium payments on a contract, but instead of purchasing the policy outright, deposits the borrowed funds with the insurance company for future payments on a policy.</p> <p>(b) Split-dollar insurance: Under this type of arrangement where the employee pays part of the insurance premium on an ordinary life insurance policy on his life, and his employer pays that part of the premium which is added to the cash surrender value, the employee is not required to include in income the interest earned on the cash surrender value (part paid by employer) which is applied by the employer to reduce employee's premium.</p>	<p>(a) Borrowing for premiums: Would amend sec. 264 to disallow a deduction for interest on indebtedness incurred or continued to purchase or carry a life insurance, endowment, or annuity contract under circumstances which reasonably establish the existence of a systematic plan, program or intention that any part of a substantial number of premiums be paid by means of indebtedness. Would apply to loans by the insurance company issuing the policy as well as loans from others.</p> <p>Effective date: Would apply to interest paid or incurred during taxable years beginning after Dec. 31, 1963.</p> <p>(b) Split-dollar insurance: Would include in employee's income subject to tax, the earnings on the employer's cash surrender value which are applied to purchase protection for the employee.</p> <p>Effective date: Would apply to premiums paid in taxable years beginning after Dec. 31, 1963.</p>	<p>(a) Borrowing for premiums: Denies a deduction for interest paid on indebtedness incurred or continued to purchase or carry a life insurance, endowment, or annuity contract pursuant to a plan of purchase which contemplates the systematic direct or indirect borrowing of part or all of the increases in the cash value of the contract. The disallowance applies whether the borrowing is done through the insurance company issuing the policy, or from a bank, or other lender. For the disallowance to apply, the plan need not contemplate a systematic plan of borrowing over the entire life of the contract, so long as it contemplates such borrowings over a substantial number of years, and the plan of borrowing may begin at any time prior to payment of the 4th annual premium under the contract. Four exceptions to the general rule where the disallowance will not apply are as follows:</p> <p>(i) in cases where no part of 4 of the annual premiums due during the 7-year period following the date the first premium is due under the contract is paid by means of indebtedness;</p> <p>(ii) in cases where the total amount of interest paid or accrued in the taxable year with respect to amounts borrowed to pay premiums does not exceed \$100;</p> <p>(iii) in cases where the interest involved was paid with respect to indebtedness incurred because of an "unforeseen substantial loss of income or unforeseen substantial increase in financial obligations";</p> <p>(iv) in cases where interest is paid or accrued on indebtedness incurred in connection with the taxpayer's trade or business.</p> <p>Effective date: Applies with respect to interest paid or accrued in taxable years beginning after Dec. 31, 1963, but only with respect to contracts purchased after Aug. 6, 1963.</p> <p>(b) Split-dollar insurance: Makes no change in existing law.</p>

certain insurance and annuity contracts

H.R. 8363 as ordered reported by Senate Committee on Finance	H.R. 8363 as passed by the Senate	H.R. 8363 as agreed to by the conferees (Public Law)
(a) Borrowing for premiums: Same as House provision but modified effective date as set forth below.	(a) Borrowing for premiums: Same as reported by Finance Com- mittee.	(a) Borrowing for premiums: Same as House version.
Effective date: Modified House provision so as to apply only to con- tracts purchased after Dec. 31, 1963 [SA No. 56].	Effective date: Same as reported by Finance Committee.	Effective date: Same as House version [SA No. 56—SR].
(b) Split-dollar insurance: Makes no change in existing law.	(b) Split-dollar insurance: Makes no change in existing law.	(b) Split-dollar insurance: Makes no change in existing law.

Present law	Treasury recommendations	H.R. 8363 as passed by the House of Representatives
<p>(a) Restricted stock options:</p> <p>(i) Company issuing stock—generally no deduction is allowed.</p> <p>(ii) Qualifications:</p> <p>Conditions stock option or plan must meet:</p> <p>(1) option price must be at least 85 percent of market price at time of granting of option. However, the price requirement can be met by use of a variable price formula based on the market price at time of option.</p> <p>(2) option must not be transferrable other than at death and must be exercisable during the employee's lifetime only by him;</p> <p>(3) option must not be for a period of more than 10 years;</p> <p>(4) recipient may not be a 10-percent stockholder in the corporation (unless the option price is at least 110 percent of fair market value and option is not exercisable after 5 years from grant).</p>	<p>(a) Restricted stock options:</p> <p>Would repeal the restricted stock option provisions in their entirety. Upon exercise of option, ordinary income would result in amount representing the difference between the value of the stock acquired and the option price. A special installment tax privilege would have been provided, and the proposed general averaging provisions would also have been available.</p> <p>-----</p> <p>-----</p> <p>-----</p>	<p>(a) Qualified stock options:</p> <p>(i) Company issuing stock—generally no deduction is allowed.</p> <p>(ii) Qualifications:</p> <p>Conditions stock option or plan must meet:</p> <p>Comparable provisions under existing law:</p> <p>(1) option price must equal or exceed the fair market value of the stock at the time the option is granted, except that this condition is considered to be met where the option price is less than the market price, but the underestimate was in good faith.</p> <p>(2) option by its terms must be nontransferrable other than by death and must be exercisable during the employee's lifetime only by him;</p> <p>(3) option by its terms must be exercisable only within 5 years of the time it is granted;</p> <p>(4) the employee immediately before the option is granted generally must not own stock representing more than 5 percent of the voting power or value of all classes of stock of the employer corporation (or its parent or subsidiary). Employee may own up to 10 percent without the option being disqualified where the equity capital of a corporation is less than \$1,000,000 with the allowable percentage of holding decreasing gradually from the 10-percent level for a company with \$1,000,000 of equity capital down to the 5-percent level for a corporation with equity capital of \$2,000,000 or more.</p> <p>No comparable requirement under existing law:</p> <p>(5) options must be granted under a plan which specifies the number of shares of stock to be issued, the employees or class of employees eligible to receive the options, and must be approved by the stockholders of the corporation within 12 months before or after the plan is adopted;</p> <p>(6) options must be granted within 10 years of the time the plan is adopted, or approved by the stockholders, whichever is earlier;</p>

option and purchase plans

[illegible]

Present law	Treasury recommendations	H.R. 8363 as passed by the House of Representatives
<p>Conditions employee receiving stock must meet:</p> <p>(1) individual must hold the stock and/or option for at least 2 years after date of granting of option and for at least 6 months after transfer of stock to him. This holding period is waived in the event of death;</p> <p>(2) individual must be an employee of the company granting the option or a parent or a subsidiary of such company at the time of granting of the option and on the day ending 3 months before the date of the exercise of the option. This requirement is waived in the event of death.</p> <p>(iii) taxable amount when requirements are met:</p> <p>(1) no income tax imposed when the option is granted or when the option is exercised; only upon disposition of the stock by employee;</p> <p>(2) when option price is at least 95 percent of market value at time of grant, entire amount of any gain when stock is disposed of is taxed at capital gains rates;</p>	<p>-----</p> <p>-----</p> <p>-----</p> <p>-----</p> <p>-----</p>	<p>(7) the option by its terms must not be exercisable while there is outstanding any qualified or restricted stock option which was granted to the employee at an earlier date, except that (a) in the case of restricted stock options (those granted before June 12, 1963), such options may be canceled at any time before Jan. 1, 1965, without adversely affecting the exercise of a qualified stock option subsequently issued, and (b) in the case of restricted stock options made available only in installments, the installments which cannot yet be exercised at the time of the granting of a qualified stock option need not be exercised before the exercise of the 2d option until the installments become exercisable.</p> <p>Conditions employee receiving stock must meet:</p> <p>(1) individual must not sell or otherwise dispose of his stock within 3 years of the date of exercise of the stock option. This holding period is waived in the event of death;</p> <p>(2) individual must be an employee of the company granting the option or a parent or a subsidiary of such company for the entire time from the date of the granting of the option until 3 months before the date of the exercise of the option. This requirement is waived in the event of death.</p> <p>(iii) taxable amount when requirements are met:</p> <p>(1) with 1 exception, no income tax is imposed until the stock is sold or otherwise disposed of by the employee;</p> <p>(2) the exception is where an attempt had been made in good faith to set the option price at the fair market value of the stock at the time of grant, but this market value, nevertheless, was underestimated. In these cases the option will not be disqualified, but 1½ times the difference between the option price and the actual fair market value of the stock at the time the option is granted (or the difference between the option price and the fair market value at the time of exercise, if this is smaller) will be taxed as ordinary income at the time the option is exercised.</p>

option and purchase plans—Continued

[illegible]

Present law	Treasury recommendations	H.R. 8363 as passed by the House of Representatives
<p>(3) when option price is between 85 and 95 percent of market value at time of grant;</p> <p>(a) where stock is sold at more than the market value of stock at time option was granted, the difference between option price and market value at time of grant will be taxed at ordinary income rates. Any additional gain will be taxed at capital gains rate;</p> <p>(b) where stock is sold at a gain but for less than the market value of stock at time option was granted, the gain will be taxed as ordinary income;</p> <p>(4) when stock is sold for less than basis, the difference between basis and price at which stock is sold will be treated as a capital loss;</p>	<p>-----</p> <p>-----</p>	<p>(3) when stock is held beyond 3 years, any gain on the sale will result in a class A gain, with a 40-percent inclusion factor and a 21-percent maximum rate;</p> <p>(4) a transfer to a trustee in bankruptcy (or a similar fiduciary) is not considered a "disposition" of the share of stock by an insolvent individual; thus no ordinary income will be recognized at that time, although a capital gains tax may be due.</p> <p>Effective date: Generally, the new provisions apply to options granted to an individual after June 11, 1963; but do not apply to an option granted after that time if granted pursuant to a binding, written contract entered into before June 12, 1963.</p>
<p>(b) Employee stock purchase plans: The provisions relating to restricted stock options are generally applicable to employee stock purchase plans.</p>	<p>-----</p>	<p>(b) Employee stock purchase plans:</p> <p>(i) Company issuing stock—generally no deduction is allowed.</p> <p>(ii) Qualifications:</p> <p>Conditions stock option, plan, or offering must meet:</p> <p>Comparable provisions under existing law:</p> <p>(1) options must be granted only to employees of the grantor corporation (or its parent or subsidiary);</p> <p>(2) option must not be transferable by the employee other than by death and must be exercisable during his lifetime only by him.</p> <p>(3) option price may not be less than 85 percent of the market value of stock at time of granting of option, or 85 percent of fair market value of stock at time option is exercised (whichever is lesser).</p>

option and purchase plans—Continued

H.R. 8363 as ordered reported by Senate Committee on Finance	H.R. 8363 as passed by the Senate	H.R. 8363 as agreed to by the conferees (Public Law)
<p>Stock held beyond 3 years: When stock is held beyond 3 years, any gain on the sale will result in long-term capital gain. This change reflects the deletion of sec. 219 of the House bill relating to capital gains.</p>		
<p>Effective date: In general, makes the new provisions apply to options granted to an individual after Dec. 31, 1963. In addition, modifies House provision to provide that options granted after Dec. 31, 1963, and before Jan. 1, 1965, which do not in all respects meet the terms of a "qualified option" may be modified to meet those terms without the modification being considered a new option [SA No. 95].</p> <p>(b) Employees' stock purchase plans: Same as House provision.</p>	<p>Effective date: Same as reported by Finance Committee.</p> <p>(b) Employees' stock purchase plans: Same as House provision.</p>	<p>Effective date: Same as Finance Committee version [SA No. 95—HR].</p> <p>(b) Employees' stock purchase plans: Same as House version.</p>

Present law	Treasury recommendations	H.R. 8363 as passed by the House of Representatives
<p>Conditions employee receiving stock must meet:</p> <p>(1) individual must hold the stock and/or option for a period of 2 years and must hold the stock alone for a period of at least 6 months;</p>		<p>(4) option must be exercised within 5 years where option price is not less than 85 percent of value of stock at time of exercise. Where option price is determined on basis of the 85-percent rule at time of grant, option must be exercised within 27 months from date of grant of option;</p> <p>(5) no employee may be granted an option if he owns 5 percent or more of the voting power or value of all classes of stock of employer corporation (or of its parent or subsidiary corporation);</p> <p>No comparable provisions under existing law—</p> <p>(6) the plan or stock offering must be approved by the stockholders of the corporation granting the option within 12 months before, or after, the date the plan is adopted;</p> <p>(7) the option must be available to all employees of the corporation except that there may be excluded 1 or more of the following categories:</p> <p>(a) employees who have been employed less than 2 years;</p> <p>(b) employees who are part time; i.e., employed 20 hours or less per week;</p> <p>(c) employees whose customary employment is not for more than 5 months a year; and</p> <p>(d) officers, supervisory personnel, or highly compensated employees.</p> <p>(8) plan or stock offering must specify that all employees granted options have the same rights and privileges, except that the amount of stock which may be purchased by any employee may be a uniform percentage of total compensation or regular or basic compensation and the plan may provide a maximum number, or value, of shares to be purchased.</p> <p>(9) employee must not be able to purchase stock under the purchase plan at an annual rate in excess of \$25,000 a year.</p> <p>Conditions employee receiving stock must meet:</p> <p>(1) individual must hold the stock and/or option for a period of 2 years and must hold the stock alone for a period of at least 6 months;</p>

H.R. 8363 as ordered reported by Senate Committee on Finance	H.R. 8363 as passed by the Senate	H.R. 8363 as agreed to by the conferees (Public Law)

Present law	Treasury recommendations	H.R. 8363 as passed by the House of Representatives
<p>(2) individual must be an employee of the company granting the option at the time of granting of the option and on the day ending 3 months before the date of exercise of the option.</p> <p>(iii) Taxable amount: See discussion under sec. 219, relating to capital gains on p. 58 of this document.</p>	<p>-----</p> <p>-----</p>	<p>(2) individual must be an employee of the company granting the option or a parent or a subsidiary of such company for the entire time from the date of the granting of the option until 3 months before the date of exercise of the option.</p> <p>(iii) Taxable amount: See discussion under sec. 219, relating to capital gains on p. 58 of this document.</p> <p>Effective date: The new provisions generally apply to options granted after June 11, 1963. Existing law, however, will continue to apply to stock options granted after that time but issued pursuant to a written plan adopted and approved before June 12, 1963, which at that time met the nondiscriminatory requirements or which were being administered in a way which did not discriminate in favor of officers, supervisory personnel, or highly compensated employees.</p>

Sec. 224. Interest on

Present law	Treasury recommendations	H.R. 8363 as passed by the House of Representatives
<p>(a) Interest: When an individual sells a capital asset on the installment basis and makes no provision for interest payments on the installments, the full difference between his cost (or other basis) for the property and the sales price may be treated as a capital gain to the seller, unless sec. 1245 is applicable.</p>	<p>(a) "Unstated interest": In the case of sales of assets where all or part of the payment is deferred for more than 1 year, would provide that if the contract of sale failed to designate as interest any part of the deferred payments, or if the amount designated as interest is unrealistically low, the contract would be treated as though it did designate a reasonable amount of interest. If no interest is specified, an interest rate of 5 percent per year on the unpaid balance will be deemed to apply, except this rule would not apply where the contract specifies total interest at least equal to interest computed at an annual interest rate of 4 percent. Other rules would apply where the interest rate is less than 4 percent.</p>	<p>(a) "Unstated interest": Where property is sold on an installment basis and part of the payments are due more than 1 year from the date of the sale or exchange, if no interest payments are specified (or if "too low" interest payments are specified) a part of each of these payments due after the 1st 6 months is to be treated as an "unstated interest" payment. The "unstated interest" is to be determined by using an interest rate specified by the Secretary of the Treasury or his delegate by regulations. Rules are provided for determining the amount of each installment payment which is to be considered as interest in various installment transactions. This provision is not to apply or is to be modified:</p> <p>(1) It is not to apply unless the sale price of the property is in excess of \$3,000.</p> <p>(2) If any of the amounts involved under the installment contract are carrying charges which presently are treated as interest from the standpoint of the purchaser then, in the case of the purchaser, such amounts are to be treated as interest payments for purposes of this provision.</p>

option and purchase plans—Continued

H.R. 8363 as ordered reported by Senate Committee on Finance	H.R. 8363 as passed by the Senate	H.R. 8363 as agreed to by the conferees (Public Law)
Effective date: Generally, the new provisions apply to options granted to an individual after Jan. 1, 1964 [SA Nos. 64, 66, 67, 71, 74, 76, 81, 82, 83, 84, 85, 86, 87 and 88].	Effective date: Same as reported by Finance Committee.	Effective date: Same as Finance Committee version [SA Nos. 64, etc—HR].

certain deferred payments

H.R. 8363 as ordered reported by Senate Committee on Finance	H.R. 8363 as passed by the Senate	H.R. 8363 as agreed to by the conferees (Public Law)
(a) "Unstated interest": Same as House provision except for modification of effective date as set forth below.	(a) "Unstated interest": Same as reported by Finance Committee.	(a) "Unstated interest": Same as Finance Committee version.

Present law	Treasury recommendations	H.R. 8363 as passed by the House of Representatives
		<p>(3) In the case of the seller this provision is to apply only if some part of the gain (if any) from the sale or exchange of the property would be considered as gain from a capital asset, or gain from depreciable property.</p> <p>(4) It is not to apply in the case of payments with respect to patents which are treated as resulting in capital gain under present law.</p> <p>(5) It is not to apply where the property involved is exchanged for annuity payments which depend in whole or in part on the life expectancy of one or more individuals nor is it to apply to payments such as those for timber, coal, and iron ore (sec. 631). In this latter case, the provision does not apply because the transaction involved is not considered to be an installment contract.</p> <p>Effective date: This provision applies to payments made after Dec. 31, 1963, on account of sales or exchanges of property occurring after June 30, 1963.</p>
<p>(b) Carrying charges: In certain cases, carrying charges are treated as an interest deduction to the extent of 6 percent of the average unpaid balance under the contract. This provision applies only in the case of "personal property" purchased under an installment contract.</p>		<p>(b) Carrying charges: Extends the provisions of present law applicable to personal property, which treats as an interest deduction carrying charges to the extent of 6 percent of the average unpaid balance under the contract to cover payments for services sold under an installment contract.</p> <p>Effective date: This provision applies to taxable years beginning after Dec. 31, 1963.</p>
<p>(c) Deferred payments contingent on future income: In some cases on the sale of capital assets, the seller may receive capital gains treatment even though the seller retains an interest in the income that is produced by the asset.</p>	<p>(b) Deferred payments contingent on future income: With several exceptions, payments contingent on future income assets which are deferred over more than 5 years and are contingent on future income would be treated as ordinary income.</p> <p>Effective date: The proposals would apply to payments received with respect to contracts entered into after Feb. 6, 1963.</p>	<p>(c) Deferred payments contingent on future income: Makes no change in existing law.</p>

Sec. 225. Personal

Present law	Treasury recommendations	H.R. 8363 as passed by the House of Representatives
<p>In general, a personal holding company is defined as a closely held corporation, most of whose income is derived from certain specified forms of passive investment income.</p> <p>(a) Rate of tax: The rate of tax on "undistributed personal holding company income" is 75 percent on the first \$2,000 and 85 percent on the balance.</p>	<p>Makes 6 recommendations with respect to changes in the personal holding company provisions.</p>	<p>Amends the provisions of existing law as follows:</p> <p>(a) Provides a rate of 70 percent on the entire amount of undistributed personal holding company income.</p>

H.R. 8363 as ordered reported by Senate Committee on Finance	H.R. 8363 as passed by the Senate	H.R. 8363 as agreed to by the conferees (Public Law)
<p>Effective date: Modified so that this provision is not to apply to any sale or exchange made pursuant to a binding written contract (including an irrevocable written option) entered into before July 1, 1963. [SA No. 100].</p> <p>(b) Carrying charges: Deletes this provision [SA No. 99].</p> <p>(c) Deferred payment contingent on future income: Makes no change in existing law.</p>	<p>Effective date: Same as reported by Finance Committee.</p> <p>(b) Carrying charges: Same as reported by Finance Committee.</p> <p>(c) Deferred payment contingent on future income: Makes no change in existing law.</p>	<p>Effective date: Same as Finance Committee version [SA No. 100—HR with an amendment].</p> <p>(b) Carrying charges: Same as House version modified so as to make it applicable only with respect to educational services (including lodging) which are purchased from an educational institution and which are provided for a student of such institution [SA No. 99—HR with an amendment].</p> <p>(c) Deferred payment contingent on future income: Makes no change in existing law.</p>

holding companies

H.R. 8363 as ordered reported by Senate Committee on Finance	H.R. 8363 as passed by the Senate	H.R. 8363 as agreed to by the conferees (Public Law)
<p>(a) Same as House provision-----</p>	<p>(a) Same as House provision.</p>	<p>(a) Same as House version.</p>

Present law	Treasury recommendations	H.R. 8363 as passed by the House of Representatives
<p>(b) Gross income test: To be a personal holding company, 80 percent of a company's gross income must be personal holding company income.</p>	<p>(a) Recommends reducing the 80-percent test to 60 percent and changing the base on which this 60 percent is computed.</p>	<p>(b) Provides that a corporation is a personal holding company if at least 60 percent of its "adjusted ordinary gross income" is personal holding company income. The bill defines the term "ordinary gross income" to mean gross income minus the gains on capital assets and sec. 1231 assets. The term "adjusted ordinary gross income" is defined to mean ordinary gross income minus certain deductions to the extent attributable to rent income or to income from mineral, oil, and gas royalties or from working interest in oil and gas wells. The deductions referred to are those for depreciation or depletion, property taxes and severance taxes, interest, and rent.</p>
<p>(c) Excluded corporations—finance companies: Certain classes of corporations are not to be treated as personal holding companies under present law. Among the types of corporations excluded are different kinds of finance companies which are in general as follows:</p> <p>(i) licensed personal finance companies classified as "small loan companies" by State law;</p> <p>(ii) other lending companies engaged in the small loan or consumer finance business;</p> <p>(iii) a loan or investment company (such as a Morris Plan bank) whose business consists substantially of receiving funds not subject to check and evidenced by certificates of indebtedness;</p> <p>(iv) a finance company actively engaged in purchasing or discounting notes receivable or installment obligations or in making loans secured by any of these or by tangible personal property.</p> <p>(d) Rental income: Rental income is not classified as personal holding company income if the gross rent is 50 percent or more of gross income.</p>	<p>(c) Excluded corporations—finance companies: The bill eliminates these 4 subsections of present law and substitutes a single subsection which excludes all types of lending or finance companies in general terms. To avoid classification as a personal holding company, a finance company must meet the following requirements:</p> <p>(i) 60 percent or more of its ordinary gross income must be derived directly from the active and regular conduct of a lending or finance business;</p> <p>(ii) its personal holding company income (excluding income from the finance business) must not be more than 20 percent of its ordinary gross income;</p> <p>(iii) its business expenses must be 15 percent of its income up to \$500,000 income and 5 percent on the next \$500,000; and</p> <p>(iv) the loans to a shareholder who owns 10 percent or more of the stock must not exceed \$5,000.</p> <p>(b) Rental income: Would retain the basic 50 percent test, but would provide that in computing the rental income subject to this 50 percent test, depreciation, interest, property taxes, and in the case of leases, amortization and rents paid be subtracted. In addition, personal holding company income other than rental income must not represent more than 10 percent of the gross income of the company.</p>	<p>(c) Excluded corporations—finance companies: The bill eliminates these 4 subsections of present law and substitutes a single subsection which excludes all types of lending or finance companies in general terms. To avoid classification as a personal holding company, a finance company must meet the following requirements:</p> <p>(i) 60 percent or more of its ordinary gross income must be derived directly from the active and regular conduct of a lending or finance business;</p> <p>(ii) its personal holding company income (excluding income from the finance business) must not be more than 20 percent of its ordinary gross income;</p> <p>(iii) its business expenses must be 15 percent of its income up to \$500,000 income and 5 percent on the next \$500,000; and</p> <p>(iv) the loans to a shareholder who owns 10 percent or more of the stock must not exceed \$5,000.</p> <p>(d) Rental income: Rent will be personal holding company income unless the following 2 tests are both satisfied:</p> <p>(1) the "adjusted income from rents" is 50 percent or more of the "adjusted ordinary gross income." For this purpose, the "adjusted income from rents" is defined as the gross rent decreased by the allocable depreciation, property taxes, interest, and rent paid. The term "adjusted ordinary gross income" is defined as the ordinary gross income decreased by depreciation, depletion, property taxes, severance taxes, interest, and rent paid.</p>

H.R. 8363 as ordered reported by Senate Committee on Finance	H.R. 8363 as passed by the Senate	H.R. 8363 as agreed to by the conferees (Public Law)
(b) Same as House provision-----	(b) Same as House provision.	(b) Same as House version.
<p>(c) Excluded corporations-finance companies. House provision modified as follows:</p> <p>(1) Income received by a lending or finance company from another company which is a member of the same affiliated group and which is also a lending or finance company is not to be treated as personal holding income for purposes of applying the 20-percent test [SA No. 107].</p> <p>(2) In applying the 20-percent of ordinary gross income test in the case of lending or finance companies, certain interest is not to be treated in the same category as personal holding company income [SA No. 102].</p> <p>(3) Amends the definition of a lending or finance business to include therein the business of rendering services or making facilities available to another member of the same affiliated group which is also in the lending or finance business [SA No. 105].</p> <p>(4) Excepts from the exclusion provided in the term lending or finance business, loans, notes, and installment obligations, evidenced or secured by contracts of conditional sale, chattel mortgages or lease agreements arising out of the sale of goods or services in the course of the transferor's or borrower's trade or business [SA No. 106].</p> <p>(d) Rental income: Same as House provision except as modified below.</p> <p>Adjusted income from rents—leases: Same as House provision but modified to provide that for purposes of determining the 50-percent test in the case of rental income, depreciation attributable to this rental income is not to be deducted in the case of tangible personal property normally rented for not more than 3 years to 1 lessee. [SA No. 109].</p>	<p>(c) Excluded corporations—Finance Companies: Same as reported by Finance Committee.</p> <p>(d) Rental income: Same as reported by Finance Committee.</p> <p>Adjusted income from rents—leases: Same as reported by Finance Committee.</p>	<p>(c) Excluded corporations—Finance companies.</p> <p>(1) Same as Finance Committee version [SA No. 107—HR].</p> <p>(2) Same as Finance Committee version [SA No. 102—HR].</p> <p>(3) Same as Finance Committee version but redefines the term "lending or finance business" to include (a) the rendering of services or making of facilities available in connection with the activities of making loans, etc., where such activities are carried on by the corporation rendering the services or making the facilities available and (b) rendering services or making facilities available to another corporation which is a member of the same affiliated group and is engaged in the lending or finance business, if such services or facilities are related to the lending or finance business of such other corporation [SA No. 105—HR with an amendment].</p> <p>(4) Same as Finance Committee version [SA No. 106—HR with an amendment].</p> <p>(d) Rental income: Same as Finance Committee version.</p> <p>Adjusted income from rents—leases: Same as Finance Committee version [SA No. 109—HR].</p>

Present law	Treasury recommendations	H.R. 8363 as passed by the House of Representatives
<p>(i) Film rentals: Payments received for permitting the exhibition of motion picture films are treated as rent.</p> <p>(ii) Copyright royalties: Copyright royalties are personal holding company income unless they are 50 percent or more of the gross income and the corporation has less than 10 percent other personal holding company income. The business deductions of that corporation must be 50 percent or more of the gross income.</p> <p>(e) Mineral royalties: Mineral, oil, or gas royalties are not personal holding company income if they total more than 50 percent of gross income and if the business deductions are 15 percent or more of gross income.</p> <p>(f) Oil and gas interests: A working interest in an oil or gas well is classified as income from an active trade or business. Thus, it is not treated as personal holding company income in applying the 80 percent gross income test.</p> <p>(g) Capital gains or assets other than stock, securities, or commodities: Capital gains (other than capital gains attributable to stocks, securities, or commodities) are not treated as personal holding company income; however, such gains are included in the gross income of a company.</p>	<p>(i) Film rentals: Proposes that payments received from the exhibition and distribution of a film be treated as copyright royalties, rather than as rent.</p> <p>(ii) Copyright royalties: Would amend this provision to provide that all royalties paid are excluded for purposes of determining whether the "business expense" test is met and to make it clear that deductions under the code other than those under sec. 162 are not treated as deductions for purposes of this test. Proposes that the required percentage of business expenses be reduced from 50 to 20 percent.</p> <p>(c) Mineral royalties: Proposes that in determining whether the mineral royalty income represents 50 percent or more of gross income, both the mineral royalty income and the total gross income be reduced for any depletion deduction and interest deduction. In addition, proposes that in determining whether or not the 15 percent test is met, only those deductions attributable to the mineral royalties be taken into account.</p> <p>(d) Oil and gas interests: Proposes that the gross income from an oil or gas interest be reduced by depletion, interest, and royalties paid out in computing the 60 percent gross income test.</p> <p>(e) Capital gains on assets other than stock, securities, or commodities: Proposes that capital gains on assets other than stocks, securities, or commodities be excluded from gross income in determining whether the 60 percent gross income test is met.</p>	<p>(2) the personal holding company income other than rent is 10 percent or less of the ordinary gross income (unadjusted except for capital gains).</p> <p>(i) Film rentals: Payments for the use of a motion picture film generally will be considered copyright royalty income with the exception that in the case of "produced film rents," i.e., income received for permitting the exhibition of films produced by the corporation owning them, such rents will not be treated as personal holding company income if the produced film rents constitute 50 percent or more of the ordinary gross income of the corporation.</p> <p>(ii) Copyright royalties: The definition of copyright royalties is amended to include payments for the right to use motion picture films except "produced films." The 50-percent business deductions test is changed to provide that these deductions must equal 25 percent of ordinary gross income diminished by royalties paid and depreciation or amortization deductions with respect to royalties.</p> <p>(e) Mineral royalties: Mineral, oil, and gas royalties are to be personal holding company income unless such royalties diminished by the fixed charges, such as depreciation or depletion, etc., are 50 percent or more of the corporation's adjusted ordinary gross income. The royalties are also personal holding company income if other personal holding company income constitutes more than 10 percent of ordinary gross income (unadjusted).</p> <p>(f) Oil and gas interests: Provides that the gross income from oil and gas interests is to be reduced by depletion, interest, property taxes, and severance taxes in computing the 60 percent of gross income test.</p> <p>(g) Capital gains: All capital gains are to be excluded in determining whether the 60 percent of gross income test is met.</p>

holding companies—Continued

H.R. 8363 as ordered reported by Senate Committee on Finance	H.R. 8363 as passed by the Senate	H.R. 8363 as agreed to by the conferees (Public Law)
10-percent test: House provision modified to provide that the 10-percent test will be considered as met if all personal holding company income (other than rents) is paid out (either actually or through consent dividends) to the extent it exceeds 10-percent of ordinary gross income [SA No. 108].	10-percent test: Same as reported by Finance Committee.	10-percent test: Same as Finance Committee version [SA No. 108—HR].
(e) Mineral royalties: Same as House provision but modified to provide that mineral royalties are to include production payments and overriding royalties [SA No. 111].	(e) Mineral royalties: Same as reported by Finance Committee.	(e) Mineral royalties: Same as Finance Committee version [SA No. 111—HR].
(f) Oil and gas interests: Same as House provision.	(f) Oil and gas interests: Same as House provision.	(f) Oil and gas interests: Same as House version.
(g) Capital gains: Same as House provision.	(g) Capital gains: Same as House provision.	(g) Capital gains: Same as House version.

Present law	Treasury recommendations	H.R. 8363 as passed by the House of Representatives
<p>(h) Liquidating dividends: The 85 percent or 75 percent tax on personal holding companies applies only to the undistributed personal holding company income, i.e., the tax is applied after dividend distributions are taken into account. The undistributed personal holding company income is reduced by dividend distributions and also by distributions in liquidation to the extent of the accumulated earnings and profits. In this latter type distribution, the shareholders are not taxed on dividend income.</p>	<p>(f) Liquidating dividends: Proposes that no dividends-paid deduction be allowed with respect to undistributed personal holding company income in the case of a liquidating distribution except to the extent that the liquidating corporation elects to treat this distribution as an ordinary dividend distribution to its shareholders.</p>	<p>(h) Liquidating dividends: The bill amends present law so as to provide that a personal holding company will have to either pay the personal holding company tax or distribute its income as a dividend in the year in which it liquidates. This bill also eliminates the effect of a liquidation under sec. 332 which permits a parent corporation to use the excess of the current and accumulated earnings and profits of its subsidiary over that subsidiary's undistributed personal holding company income as a carryover dividend-paid deduction in computing its own dividends-paid deduction.</p> <p>(j) "Would have been" corporations: A "would have been" corporation is one which is not a personal holding company under present law but which may become a personal holding company if the bill is enacted. A corporation will qualify for the special treatment provided in the bill if:</p> <p>(1) it was not a personal holding company for at least 1 of its 2 most recent taxable years ending before the enactment of the bill; and</p> <p>(2) it would have been a personal holding company for such year if the bill had already been enacted.</p> <p>(3) Liquidations:</p> <p>(i) Before Jan. 1, 1966. If such a corporation is liquidated and all its property distributed before Jan. 1, 1966, none of the new personal holding company provisions are applicable (except the provision dealing with liquidation distributions).</p>

H.R. 8363 as ordered reported by Senate Committee on Finance	H.R. 8363 as passed by the Senate	H.R. 8363 as agreed to by the conferees (Public Law)
<p>(h) Liquidating dividends: Same as House provision.</p>	<p>(h) Liquidating dividends: Same as House provision.</p>	<p>(h) Liquidating dividends: Same as House version.</p>
<p>(j) "Would have been" corporations: Same as House provision except as modified below.</p>	<p>(j) "Would have been" corporations: Same as reported by Finance Committee.</p>	<p>(j) "Would have been" corporations:</p>
<p>Provides that a corporation will be a "would have been" corporation if it was not a personal holding company for at least 1 of its 2 most recent taxable years ending before Dec. 31, 1963 (instead of date of enactment of the bill) [SA No. 129 and 132].</p>	<p>Same as reported by Finance Committee.</p>	<p>Same as House version [SA No. 129 and 132—SR].</p>
<p>Liquidations: Modifies the House liquidation provisions as follows: New par. (2) of sec. 333(g) is amended to provide that it shall be applicable to liquidations occurring after Dec. 31, 1966 (instead of Dec. 31, 1965), of corporations which owe qualified indebtedness on Jan. 1, 1964 (instead of on Aug. 1, 1963) [SA Nos. 119 and 124]. Provides that shareholders of a corporation which attempts to qualify under the new liquidation provisions, but was not eligible to do so, may elect to convert the liquidation to the treatment provided by sec. 331 [SA No. 131]. Provides that the term "qualified indebtedness" includes outstanding indebtedness incurred by the taxpayer before Jan. 1, 1964 (instead of Aug. 1, 1963) [SA No. 133]. Provides that the deductions allowed for depletion shall be taken into account to reduce the deduction allowed by sec. 545(c) and the qualified indebtedness under certain circumstances [SA Nos. 137 and 139].</p>	<p>Liquidations: Same as reported by Finance Committee.</p>	<p>Same as Finance Committee version [SA Nos. 119 and 124—HR].</p> <p>Same as Finance Committee version [SA No. 131—HR].</p> <p>Same as Finance Committee version [SA No. 133—HR].</p> <p>Same as Finance Committee version [SA Nos. 137 and 139—HR].</p>

Present law	Treasury recommendations	H.R. 8363 as passed by the House of Representatives
		<p>(ii) 1-month liquidations before Jan. 1, 1966. If such a corporation is liquidated under sec. 333 before Jan. 1, 1966, the shareholders are taxed on their allocable shares of the earnings or profits as class B capital gains and on the fair market value of certain stocks and securities acquired by the corporation after Dec. 31, 1962.</p> <p>(iii) 1-month liquidations after Dec. 31, 1965. Provides special rules for taxation of shareholders of "would have been" corporations which liquidate under sec. 333 and which in general had unpaid debts on Aug. 1, 1963; which notified the Secretary before Jan. 1, 1967, they would avail themselves of this provision and liquidated before the end of the year in which they paid such debts. Provides a special deduction in computing undistributed personal holding company income for payment of a debt which is outstanding on Aug. 1, 1963, or a debt substituted for such debt.</p>
(j) Foreign personal holding companies:	-----	(k) Foreign personal holding companies:
(i) When stock in a foreign personal holding company is transferred at death, basis of the stock is not increased.	-----	(i) Amends present law to provide that when stock in a corporation which was a foreign personal holding company for its last taxable year before enactment of the bill, is transferred at death and the decedent's basis for such stock is less than its fair market value, the basis of the stock is to be increased by the amount of Federal estate tax attributable to the net appreciation in value.
(ii) Sec. 333 does not apply to foreign corporations.	-----	(ii) 1-month liquidations: Provides that in certain cases, sec. 333 of existing law is to apply to foreign personal holding companies.
(iii) Foreign personal holding income is defined largely in terms of domestic personal holding company income.	-----	(iii) Amendments are made to sec. 553 relating to foreign personal holding company income to conform to the changes made with respect to domestic personal holding company income. No substantive changes are involved.
	Effective date: The amendment would be effective for taxable years beginning after Dec. 31, 1963.	Effective date: In general, the provisions are made effective with respect to taxable years beginning after Dec. 31, 1963. The dividends-paid deduction modification and the liquidation provision, however, apply to distributions made in taxable years of the distributing corporation beginning after Dec. 31, 1963.

H.R. 8363 as ordered reported by Senate Committee on Finance	H.R. 8363 as passed by the Senate	H.R. 8363 as agreed to by the conferees (Public Law)
<p>(k) Foreign personal holding companies: Deletes this provision [SA No. 141].</p>	<p>(k) Foreign personal holding companies: Deletes this provision.</p>	<p>(k) Foreign personal holding companies. The provisions of the House bill relating to an increase in basis is restored with the modifications set forth below but the provisions relating to the liquidation of foreign personal holding companies are omitted. The modifications add a new provision to the act which provides that the basis determined under sec. 1014 (b)(5) of a share of stock or a security acquired from a decedent dying after Dec. 31, 1963, of a corporation which was a foreign personal holding company for its most recent taxable year ending before the date of the decedent's death is to be increased by such share's or security's proportionate share of any Federal estate tax attributable to the net appreciation in value of all such shares and securities [SA No. 141—HR with an amendment].</p>
<p>Effective date: Same as House provision.</p>	<p>Effective date: Same as House provision.</p>	<p>Effective date: Same as House version.</p>

Present law	Treasury recommendations	H.R. 8363 as passed by the House of Representatives
<p>(a) Aggregation of oil and gas property:</p> <p>In the case of oil and gas, operators have an option to use either the 1939 code "lease" rule or the 1954 code "operating unit" rule.</p> <p>Optional rule: A taxpayer has an option to treat each operating interest in each mineral deposit in each tract or parcel of land as separate "property" unless he affirmatively elects to aggregate them. However, an election to treat an interest as a "separate property" is binding unless permission is granted by the Commissioner to change such treatment.</p>	<p>(a) Aggregation of oil and gas property:</p> <p>Recommends that the "operating unit" rule be eliminated in the case of oil and gas properties.</p> <p>Optional rule: Alternatively, would provide that the taxpayer could either maintain separate deposits as separate properties or could elect to combine all deposits falling within a single lease or acquisition. The combination of different leases or acquisitions would not be permitted.</p> <p>Unitization or pooling agreements: An exception to the optional rule could be provided where an oil and gas producer enters a so-called unitization agreement, in which case the undivided interest would be treated as 1 property even though it covers more than 1 lease. This same type of exception could also be applied where a producer owning a number of leases enters a unitization agreement with various royalty owners for the purpose of determining the share of production allocable to each of the royalty owners.</p>	<p>(a) Aggregation of oil and gas property:</p> <p>(i) In general, the bill restores the rule prevailing prior to the 1954 act, i.e., the 1939 code "lease" test of the term "property" is reinstated for all oil and gas cases for all taxable years beginning after Dec. 31, 1963.</p> <p>Optional rule: The operational pattern of present law of the option to elect to combine or aggregate any 2 or more operating interests falling within a single lease or acquisition into a single "property" is recast so that under the House bill, failure to affirmatively elect to the contrary automatically aggregates such interests as they are developed. Thus, as each discovery is made, the taxpayer has a choice as to whether to include it in the existing aggregation or to treat it separately.</p> <p>(ii) "Unscrambling" of basis. Alternative methods are provided of redetermining the adjusted bases, if any, of operating interests presently aggregated which under the bill must hereafter be treated separately.</p> <p>One method provides that any basis may be divided among the separate properties in accordance with the fair market value of each property.</p> <p>The second method provides that taxpayers may take the adjusted basis of each property at the time it was first included in an aggregation and adjust this basis downward for adjustments reasonably attributable to the property so that the total of these adjusted bases equals the adjusted basis of the former aggregation.</p> <p>(iii) Unitization or pooling agreements: A unitization or pooling agreement is an exception to the optional rule stated above. Thus, in unitization or pooling agreement cases all of the operating mineral interests of a taxpayer which participate in 1 of these unitization agreements are to be treated as a single property without regard to the optional rule stated above. This treatment applies to all compulsory unitization agreements required by State law and also to voluntary agreements which meet these 2 tests:</p> <p>(1) The operating mineral interests must be in the same deposit or 2 or more deposits, the joint development or production of which is logical from the standpoint of geology, convenience, economy, or conservation; and</p> <p>(2) The operating mineral interests covered by the agreement must be in tracts or parcels of land which are either contiguous or in close proximity.</p>

in case of oil and gas wells

H.R. 8363 as ordered reported by Senate Committee on Finance	H.R. 8363 as passed by the Senate	H.R. 8363 as agreed to by the conferees (Public Law)
(a) Aggregation of oil and gas prop- erty: Same as House provision.	(a) Aggregation of oil and gas prop- erty: Same as House provision.	(a) Aggregation of oil and gas prop- erty: Same as House version.

Present law	Treasury recommendations	H.R. 8363 as passed by the House of Representatives
<p>(b) Carryover of excess deductions:</p> <p>A percentage depletion allowance is computed by applying a specific percentage rate (27½ percent in case of oil and gas wells) to the gross income from each mineral property, but the deduction allowed cannot exceed 50 percent of the net income from the property. In determining "net income" for the purpose of this 50-percent limitation, all deductions (except depletion) attributable to the property are deducted from gross income. Intangible drilling costs and exploration and development expenditures are included in those deductions which reduce gross income for this purpose.</p> <p>(c) Foreign mineral operations:</p> <p>U.S. citizens and domestic corporations may treat certain foreign taxes paid or accrued to a foreign country as a credit against their U.S. income tax otherwise payable. Domestic corporations are allowed a credit for foreign taxes paid by 10-percent-owned 1st tier foreign subsidiaries and by 2d tier foreign subsidiaries if 50 percent of their voting stock is owned by a 10-percent-owned 1st tier foreign subsidiary. Similar tax credits are also allowed for certain tax-haven income.</p> <p>Limitation: The foreign taxes which may be allowed as a credit against U.S. tax are limited to the same proportion of the U.S. tax against which the credit is taken if the income from sources within each foreign country (the per country limitation) or, alternatively, all foreign countries (the overall limitation) bears to the entire taxable income of the taxpayer. Except in the case of interest income, computations of foreign and U.S. taxes on foreign source income for purposes of</p>	<p>Effective date: This proposal would apply to all oil and gas properties for taxable years beginning after Dec. 31, 1963.</p> <p>(b) Carryover of excess deductions:</p> <p>Provides that amounts deducted with respect to a mineral property which are in excess of gross income from that property in any taxable year would be carried forward to future years and used in computing the "net income from the property" for purposes of applying the 50-percent-of-net-income limitation. The amount of the carryover of such deductions to be used to reduce net income in any subsequent taxable year would be limited to that amount which reduced the taxpayer's otherwise allowable percentage depletion for the taxable year by 50 percent, but never less than the cost depletion allowable.</p> <p>Effective date: Would apply to excess deductions taken with respect to a property in taxable years beginning after Dec. 31, 1963.</p> <p>(c) Foreign mineral operations:</p> <p>Recommends that the deductions for development costs and exploration expenses be restricted so as not to permit them to reduce the U.S. tax on income earned in the United States. This would be accomplished by denying a deduction against domestic income for any foreign operating losses to the extent such losses are attributable to development costs and exploration expenses. However, losses on abandonment would be allowed to offset U.S. income. Also recommends that excess foreign tax credits, which arise from the allowance of percentage depletion and the deduction of intangible drilling costs and development and exploration expenses in foreign mineral operations, not be permitted to offset the U.S. taxes on other nonmineral foreign income. Such excess tax credits could be used only to offset U.S. taxes on income from foreign mineral operations.</p>	<p>Prior agreements: In case of unitization agreements entered into in taxable years beginning before Jan. 1, 1964, where the taxpayer, for the last taxable year beginning before 1964, treated each interest as a separate property and if it is determined by law that this was the proper treatment, then the taxpayer may, if he so desires, continue to treat these interests as separate properties despite the fact that they are in a unitization agreement.</p> <p>Effective date: The amendments made by this provision apply to taxable years beginning after Dec. 31, 1963. However, this does not involve any change in elections for those already covered under the 1939 code rules.</p> <p>(b) Carryover of excess deductions: Makes no change in existing law.</p> <p>(c) Foreign mineral operations. Makes no change in existing law.</p>

H.R. 8363 as ordered reported by Senate Committce on Finance	H.R. 8363 as passed by the Senate	H.R. 8363 as agreed to by the conferces (Public Law)
<p>Effective date: Same as House provision.</p> <p>(b) Carryover of excess deductions: Makes no change in existing law.</p> <p>(c) Foreign mineral operations: Provides that excess foreign tax credits which are attributable to the allowance of percentage, rather than cost, depletion by the United States shall not be allowed as a tax credit against U.S. tax otherwise payable on the income from the taxpayer's nonmineral foreign activities. (Added by sec. 231 of the Finance Committee bill.) Mineral income defined: (1) Mineral income includes (a) income derived from the extraction of minerals from mines, wells, or other mineral deposits; (b) income from the processing of such minerals into their primary products; and (c) income from the transportation, distribution, and sale of the primary product derived from the mineral or of the mineral itself. (2) Taxpayers are permitted to treat dividends from corporations in which they own 5 percent or more of the voting stock as mineral income to the extent the dividend is attributable</p>	<p>Effective date: Same as House provision.</p> <p>(b) Carryover of excess deductions: Makes no change in existing law.</p> <p>(c) Foreign mineral operations: Same as reported by Finance Committee.</p>	<p>Effective date: Same as House version.</p> <p>(b) Carryover of excess deductions: Makes no change in existing law.</p> <p>(c) Foreign mineral operations: Same as House version, i.e., makes no change in existing law [SA No. 164—SR].</p>

Present law	Treasury recommendations	H.R. 8363 as passed by the House of Representatives
<p>the limitation on the foreign tax credit, are made without regard to the type of activity from which the income is derived.</p> <p>Carryover: The excess foreign tax may be carried back 2 years and forward 5 years and be used as a credit against U.S. tax in those years to the extent the foreign tax credit limitation for these years exceeds the foreign tax credit otherwise allowable.</p> <p>Depletion allowance: Taxpayers who extract minerals in foreign countries are allowed a deduction for percentage depletion in computing their U.S. income tax. To the extent foreign tax paid or accrued on foreign income derived from the extraction of minerals from mines, wells, or other mineral deposits exceeds the U.S. tax on the same income, the excess foreign tax is available as a credit against U.S. tax otherwise payable on foreign source income from unrelated activities of the taxpayer in the same or other foreign countries.</p> <p>(d) Sale of mineral interests: Intangible drilling costs and certain development and exploration expenditures are deductible from ordinary income. However, when the taxpayer sells his interest in a mineral property, any gain realized is taxed as a capital gain.</p>	<p>Effective date: Would apply for all taxable years beginning after Dec. 31, 1963.</p> <p>(d) Sale of mineral interests: Would provide that on the sale or disposition of mineral property, a portion of any gain realized be treated as ordinary income in a manner similar to the treatment now provided in the case of tangible personal property. The amount treated as ordinary income at the time of sale would be (1) the amount of intangible drilling and development expenditures in the case of oil or gas properties, or exploration and development expenditures in the case of other mineral properties, which had been deducted, together with (2) any depletion taken (either cost or percentage) but only to the extent of the basis of the taxpayer in the property. Thus, if the depletion deduction taken exceeded the cost or other basis of the taxpayer in the property, this excess amount would not give rise to ordinary income.</p> <p>Effective date: Would apply to dispositions of mineral properties after Dec. 31, 1963, and in the case of these dispositions the deductions of capital costs which would give rise to ordinary income would be those incurred in periods after Dec. 31, 1963.</p>	<p>(d) Sale of mineral interests: Makes no change in existing law.</p>

Sec. 227. Treatment

Present law	Treasury recommendation	H.R. 8363 as passed by the House of Representatives
<p>A lessor or sublessor of iron ore deposits is entitled to cost depletion or to a percentage depletion allowance measured by 15 percent of his gross royalty income (which is regarded as ordinary income).</p>	None-----	<p>Affords to iron ore royalty income the same income tax classification and capital gain treatment applicable to coal royalties under existing law, i.e., a 50-percent inclusion factor with a 25-percent alternative maximum rate.</p>

H.R. 8363 as ordered reported by Senate Committee on Finance	H.R. 8363 as passed by the Senate	H.R. 8363 as agreed to by the conferees (Public Law)
<p>to mineral activities of the payor corporation. In this case, the dividend must be one which is treated as income from sources without the United States.</p> <p>(3) A taxpayer may treat a portion of his distributable share of income of a partnership as mineral income to the extent it is derived from foreign mineral activities of the partnership.</p> <p>(4) Income attributable to the manufacture, distribution, and marketing of petrochemicals is not to be treated as mineral income.</p> <p>Carryover: No carryback or carryforward is permitted for foreign taxes which are disallowed under this provision.</p> <p>Effective date: Applies with respect to the computation of foreign tax credits for taxable years beginning after Dec. 31, 1963 [SA No. 164].</p> <p>(d) Sale of mineral interests: Makes no change in existing law.</p>	<p>Effective date: Same as reported by Finance Committee.</p> <p>(d) Sale of mineral interests: Makes no change in existing law.</p>	<p>(d) Sale of mineral interests: Makes no change in existing law.</p>

of iron ore royalties

H.R. 8363 as ordered reported by Senate Committee on Finance	H.R. 8363 as passed by the Senate	H.R. 8363 as agreed to by the conferees
<p>Modifies the House provision as follows:</p> <p>(a) Limits the new capital gain treatment to iron ore royalties received with respect to iron ore mined in the United States [SA No. 150].</p>	<p>Same as reported by Finance Committee.</p>	<p>Same as Finance Committee version:</p> <p>(a) [SA No. 151—HR].</p>

Present law	Treasury recommendations	H.R. 8363 as passed by the House of Representatives
		Effective date: Applies to iron ore mined in taxable years beginning after Dec. 31, 1963.

Sec. 230. Capital gains

Present law	Treasury recommendations	H.R. 8363 as passed by the House of Representatives
<p>(a) General rule: In the case of gains from sales or exchanges of capital assets held for 6 months or less (short term), 100 percent of the gain is taxable as ordinary income.</p> <p>In the case of gains from the sales or exchanges of capital assets held for more than 6 months (long term) by taxpayers other than corporations, 50 percent of the excess of the net long-term gain over any net short-term loss is taxable as ordinary income, or 100 percent of the excess is taxed at a flat 25-percent rate.</p> <p>(b) Offset rules: Capital gains and losses are first offset within each category to determine if there is a net short-term capital gain or loss or a net long-term capital gain or loss. Net gains of 1 category are netted against net losses of the other category.</p>	<p>(a) General rule: Would provide that in the case of capital gains on assets held 1 year or less (short term), 100 percent of such gains is taxable as ordinary income.</p> <p>In the case of capital gains on assets held more than 1 year (long term), 30 percent of the excess of the net long-term capital gain over any net short-term capital loss would be taxable as ordinary income, or, 100 percent of the excess would be taxable at a flat 19.5-percent rate.</p> <p>In the case of corporate taxpayers, the alternative rate would be reduced to 22 percent.</p> <p>(b) Offset rules: Recommends no changes with respect to the offset rules of present law.</p>	<p>(a) General rule: In the case of capital gains on assets held 6 months or less (short term), 100 percent of such gains is taxed as ordinary income.</p> <p>In the case of a net capital gain on assets held more than 6 months but not more than 2 years (class B), 50 percent of such net gain will be taxed as ordinary income, or 100 percent of such net gain will be taxed at a flat 25-percent rate.</p> <p>In the case of a net capital gain on assets held more than 2 years (class A), 40 percent of such net gain will be taxed as ordinary income, or 100 percent of such net gain will be taxed at a flat 21-percent rate.</p> <p>In the case of corporations no change is made.</p> <p>(b) Offset rules: Capital gains and losses are first offset within each category to determine if there is a net short-term capital gain or loss, a net class B capital gain or loss, or a net class A capital gain or loss. The 3 categories are then to be netted as follows: (1) net class A capital losses first reduce net class B capital gains and then net short-term capital gain. (2) net class B capital losses first reduce net class A capital gain and then net short-term capital gain. (3) net short-term capital losses first reduce net class B capital gain and then net class A capital gain.</p>

of iron ore royalties—Continued

H.R. 8363 as ordered reported by Senate Committee on Finance	H.R. 8363 as passed by the Senate	H.R. 8363 as agreed to by the conferees (Public Law)
<p>(b) Denies the new capital gain treatment where the same parties or substantially the same parties directly or indirectly own the iron ore property or operate it [SA No. 153].</p> <p>(c) Amends the Social Security Act to prevent iron ore royalties which receive capital gains treatment from being taken into account for social security tax purposes [SA No. 160].</p> <p>Effective date: Modified to apply only to royalties received after Dec. 31, 1963, with respect to iron ore mined after that date [SA No. 161].</p>	<p>Effective date: Same as reported by Finance Committee.</p>	<p>(b) [SA No. 153—HR].</p> <p>(c) [SA No. 160—HR].</p> <p>Effective date: Same as Finance Committee version [SA No. 161—HR].</p>

and losses

H.R. 8363 as ordered reported by Senate Committee on Finance	H.R. 8363 as passed by the Senate	H.R. 8363 as agreed to by the conferees (Public Law)
<p>(a) General rule: Deletes this provision [SA No. 166].</p> <p>(b) Offset rules: Deletes this provision.</p>	<p>(a) General rule: Deletes this provision.</p> <p>(b) Offset rules: Deletes this provision.</p>	<p>(a) General rule: Finance Committee deletion modified to allow an unlimited loss carryover for individuals (rather than 5 years) as set forth in (c) below. [SA No. 166—H.R. with an amendment].</p> <p>(b) Offset rules: Same as Finance Committee version.</p>

Present law	Treasury recommendations	H.R. 8363 as passed by the House of Representatives
<p>(c) Carryover of losses: Any excess of capital losses over capital gains (either short-term or long-term) may be offset against ordinary income to the extent of \$1,000. If any net loss remains, it may be carried forward for a period of up to 5 years as a short-term capital loss and as such, offset against capital gains in each year and against ordinary income in each year to the extent of \$1,000. In the case of corporations, capital losses are offset against capital gains and a 5-year carryover is provided.</p> <p>(d) Property eligible for capital gain treatment: In general, capital assets mean property held by a taxpayer other than—</p> <ol style="list-style-type: none"> (1) Inventory; (2) Depreciable property used in a trade or business; (3) Real property used in a trade or business; (4) Copyrights, literary, musical or artistic compositions held by a taxpayer whose personal efforts created such property (or by a person who determines gain or loss by reference to the basis of such property to such person); (5) Accounts and notes receivable acquired in the ordinary course of business for services rendered or from sale of inventory; and (6) Government obligations issued on a discount basis and payable without interest at a fixed maturity date not exceeding 1 year. <p>Depreciable personal property, real property, and certain other property used in the trade or business are excluded from the definition of "capital assets," but gain from the sale or exchange of these assets may in some situations receive capital gain treatment.</p> <p>Timber: Gain treated as long-term capital gain with a 50-percent inclusion factor or alternatively at a flat 25-percent rate.</p> <p>Coal royalties: Treated as long-term capital gain with a 50-percent inclusion factor or alternatively at a flat 25-percent rate.</p> <p>Iron ore royalties: Treated as ordinary income.</p>	<p>(c) Carryover of losses: Any net capital losses in excess of capital gains to be allowed as a deduction against ordinary income to the extent of \$1,000. In lieu of a 5-year loss carryforward, would provide an indefinite loss carryforward. Loss carryforwards would retain their character. In addition, proposes that married taxpayers filing separate returns be limited to an annual offset of \$500. No change is proposed in the case of corporations in the manner in which capital losses are treated.</p> <hr/> <p>Class B or class A capital gain may apply in the case of the sale or exchange of depreciable or real property used in a trade or business.</p> <p>Timber: Would provide that for contracts entered into after Feb. 6, 1963, gain from the sale of timber or the right to cut timber with a retained economic interest will result in ordinary income, except in the case of individuals the first \$5,000 of income from timber will remain capital gain. Would also provide for expensing of reforestation costs.</p> <p>Coal: Would repeal existing law with respect to contracts entered into after Feb. 6, 1963.</p> <hr/>	<p>(c) Carryover of losses: Provides for an unlimited carryforward of capital losses. Also provides that each class of capital loss is to retain its character. No change in the treatment of capital losses of corporations is made.</p> <p>(d) Property eligible for capital gains treatment: Except in the case of iron ore, no change is made in the definition of "assets," gain from the sale of which is accorded capital gains treatment. Thus, class B or class A capital gain treatment will apply to the sale of capital assets.</p> <p>Class B or class A capital gain may apply in the case of the sale or exchange of depreciable or real property used in a trade or business.</p> <p>Timber: Gain to be treated as class B; i.e., with a 50-percent inclusion factor or alternatively at a flat 25-percent rate, if held more than 6 months.</p> <p>Coal royalties: To be treated as class B; i.e., with a 50-percent inclusion factor or alternatively at a flat 25-percent rate, if held more than 6 months.</p> <p>Iron ore royalties: To be treated as class B; i.e., with a 50-percent inclusion factor or alternatively at a flat 25-percent rate, if held more than 6 months.</p>

H.R. 8363 as ordered reported by Senate Committee on Finance	H.R. 8363 as passed by the Senate	H.R. 8363 as agreed to by the conferees (Public Law)
(c) Carryover of losses: Deletes this provision [SA No. 166].	(c) Carryover of losses: Deletes this provision.	(c) Carryover of losses: Same as House version [SA No. 166—HR with an amendment].
(d) Property eligible for capital gain treatment: Deletes this provision.	(d) Property eligible for capital gain treatment: Deletes this provi- sion.	(d) Property eligible for capital gain treatment: Same as present law.
Timber: Deletes this provision-----	Timber: Deletes this provision-----	Timber: Same as present law.
Coal royalties: Deletes this provi- sion. Iron ore royalties: Deletes this pro- vision.	Coal royalties: Deletes this provi- sion. Iron ore royalties: Deletes this pro- vision.	Coal royalties: Same as present law. Iron ore royalties: Same as present law.

Present law	Treasury recommendations	H.R. 8363 as passed by the House of Representatives
<p>Property used in the trade or business of farming: Gain from sale of livestock held for dairy breeding or draft purposes will be treated as long-term capital gain with a 50-percent inclusion factor or alternatively at a flat 25-percent rate. Expenses attributable to the care and maintenance and depreciation deductions may be taken with respect to such animals.</p> <p>Unharvested crops: Gain treated as long-term capital gain with a 50-percent inclusion factor or alternatively at a flat 25-percent rate.</p> <p>(e) Distributions from pension and profit-sharing plans: In general, lump-sum distributions from trusts created or organized as part of a pension or profit-sharing plan are taxed as long-term capital gain if paid to a distributee within 1 taxable year on account of an employee's death or other separation from service.</p> <p>Employer's stock: Gain or loss on employer's stock not recognized at time of distribution; recognized only when sold or otherwise disposed of by an employee in a taxable transaction.</p> <p>(f) Royalties from patents: In general, royalties received by the creator of an invention, and in certain cases by individuals who purchase their interests in an invention, are accorded long-term capital gains treatment.</p> <p>(g) Employee termination payments: Amounts received by an employee for the assignment or release of his rights to receive a percentage of future profits of his employer are accorded capital gain treatment if certain conditions are met.</p>	<p>Property used in the trade or business of farming: Would provide that in any year taxpayer's adjusted gross income from nonfarm sources equals \$15,000 or more, and his deductions from farming exceed that amount, then capital gains from farming will be treated as ordinary income to the extent of such deductions. Deductions from farming would continue to be deductible against nonfarm income. Would apply to taxable years beginning after Dec. 31, 1963.</p> <p>-----</p> <p>Distribution from pension and profit-sharing plans: In general, lump-sum distribution payments would be treated as ordinary income, but the general averaging provision would be available. This provision would apply to distributions received after Dec. 31, 1963, but would not apply to that amount which equaled the amount in the employee's account as of the close of the last plan year preceding Feb. 6, 1963, plus the future earnings of that amount.</p> <p>-----</p> <p>Patents: Recommends that patents be excluded from the definition of capital asset and that amounts received on the sale of the patent by the inventor be treated as ordinary income rather than capital gain.</p> <p>-----</p>	<p>Property used in the trade or business of farming: Gain from sale of livestock held for dairy breeding or draft purposes will be treated as class B; i.e., with a 50-percent inclusion factor or alternatively at a flat 25-percent rate, if held for 12 months or more. No change made with respect to expenses and depreciation.</p> <p>Unharvested crops: Gain to be treated as class B; i.e., with a 50-percent inclusion factor or alternatively at a flat 25-percent rate.</p> <p>The bill permits, however, class A capital gain treatment to apply to the gain from the sale of timber, coal, iron ore, livestock and unharvested crops if such gain would have resulted in capital gain treatment under present law without regard to to sec. 1231(b)(2) of the 1954 code.</p> <p>(e) Distributions from pension and profit-sharing plans: In general, lump-sum distributions will receive class B capital gains treatment; i.e., a 50-percent inclusion factor or alternatively a flat 25-percent rate.</p> <p>Employer's stock: Gain or loss on employer's stock not recognized at time of distribution; recognized only when sold or otherwise disposed of by an employee in a taxable transaction. Gain equal to the unrealized appreciation at time of distribution, regardless of holding period of stock, will be treated as class B capital gain. Remainder of gain, if any, will be treated as short-term, class B, or class A capital gain as the case may be.</p> <p>(f) Royalties from patents: Royalties received by the creator of the invention will be afforded class B capital gain treatment. Royalties received by individuals who finance the creator could receive class A capital gain treatment if the holding period requirement is satisfied.</p> <p>(g) Employee termination payments: Continues existing law by treating such amounts as class B capital gains.</p>

H.R. 8363 as ordered reported by Senate Committee on Finance	H.R. 8363 as passed by the Senate	H.R. 8363 as agreed to by the conferees (Public Law)
Property used in the trade or business of farming: Deletes this provision.	Property used in the trade or business of farming: Deletes this provision.	Property used in the trade or business of farming: Same as present law.
Unharvested crops: Deletes this provision.	Unharvested crops: Deletes this provision.	Unharvested crops: Same as present law.
(e) Distribution from pension and profit-sharing plans: Deletes this pro- vision.	(e) Distribution from pension and profit-sharing plans: Deletes this pro- vision.	(e) Distribution from pension and profit-sharing plans: Same as present law.
Employer's stock: Deletes this pro- vision.	Employer's stock: Deletes this pro- vision.	Employer's stock: Same as present law.
(f) Royalties from patents: De- letes this provision.	(f) Royalties from patents: De- letes this provision.	(f) Royalties from patents: Same as present law.
(g) Employee termination pay- ments: Deletes this provision.	(g) Employee termination pay- ments: Deletes this provision.	(g) Employee termination pay- ments: Same as present law.

Present law	Treasury recommendations	H.R. 8363 as passed by the House of Representatives
<p>(h) Short sales: In certain cases, gain on the closing of short sales is considered short-term capital gain. If the substantially identical property is not used to close the short sale, a new holding period begins.</p> <p>Losses: If on the date of the short sale substantially identical property has been held for more than 6 months, such losses are considered long-term losses.</p>	<p>Effective date: In general, the amendments would be effective for taxable years beginning after Dec. 31, 1963. The 1-year holding period would be applicable to assets purchased after Dec. 31, 1963.</p>	<p>(h) Short sales: Continues existing law and also provides similar rule if substantially identical property is held at the time of the short sale for more than 6 months but less than 2 years. In this case, class B capital gain would apply.</p> <p>Losses: If on the date of the short sale, substantially identical property has been held for more than 2 years or more than 6 months but not more than 2 years, such losses will be considered either as class A or as class B losses.</p> <p>Effective date: Provisions are applicable to taxable years beginning after Dec. 31, 1963. In the case of lump-sum distributions, the bill applies to sales of employer stock in taxable years beginning after Dec. 31, 1963, without regard to when such stock was distributed.</p>

Sec. 231. Gain from dispositions

Present law	Treasury recommendations	H.R. 8363 as passed by the House of Representatives
<p>(a) With respect to real property (other than land) used in a trade or business or held for the production of income, a taxpayer may take depreciation with respect to such real property either on a straight line method, a double declining balance method, sum of the years-digits method or any other consistent method which does not during the 1st two-thirds of the useful life of the property result in greater depreciation than under the double declining balance method. If the property subsequently is sold, any gain realized on the difference between the sales price (adjusted for selling expenses) and the adjusted basis of the property is generally taxed as a capital gain if there is a gain, or as an ordinary loss where the amount realized is less than the adjusted basis.</p>	<p>(a) Proposes that depreciation with respect to depreciable real property acquired after Feb. 6, 1963, be limited to an amount not in excess of the depreciation which is allowed under the straightline method of depreciation.</p> <p>(b) Would provide that gain on the sale of real property (other than land) after Dec. 31, 1963, be treated as ordinary income, instead of capital gain, to the extent of depreciation taken for taxable years beginning after Dec. 31, 1962, and subsequent years if the property is sold within 6 years of the purchase date. In the case of property held for more than 6 years, but not more than 14½ years after date of purchase, the percentage of gain reflecting the depreciation which would be treated as ordinary income would be reduced by 1 percentage point for each month the property has been held for more than 6 years. If the property is held longer than 14½ years, no portion of any gain is treated as ordinary income.</p>	<p>(a) Amends present law to provide that when depreciable real estate is disposed of after Dec. 31, 1963, a proportion of any gain upon the sale of the property is to be treated as ordinary income; that is, previous depreciation deductions against ordinary income are to be "recaptured" from the capital gains made. The amount to be recaptured which is to be treated as ordinary income is a certain percentage of what is called additional depreciation or the amount of gain on the sale of the property, whichever is smaller. The term "additional depreciation" is defined as that part of the depreciation deductions which exceeds the depreciation deductions allowable under the straightline method.</p> <p>(b) Methods of recapture:</p> <p>(i) If real property is held 1 year or less, then all of the depreciation taken is subject to recapture (but not more than the amount of the gain).</p> <p>(ii) If the real property was held more than 1 year but less than 21 full months, there is recognized as ordinary income 100 percent of the smaller of—</p> <p>(1) the "additional depreciation"; or</p> <p>(2) the gain on the transfer.</p>

H.R. 8363 as ordered reported by Senate Committee on Finance	H.R. 8363 as passed by the Senate	H.R. 8363 as agreed to by the conferees (Public Law)
(h) Short sales: Deletes this provision.	(h) Short sales: Deletes this provision.	(h) Short sales: Same as present law.
Losses: Deletes this provision-----	Losses: Deletes this provision-----	Losses: Same as present law.
Effective date: Deletes this provision.	Effective date: Deletes this provision.	Effective date: Same as present law.

of certain depreciable realty

H.R. 8363 as ordered reported by Senate Committee on Finance	H.R. 8363 as passed by the Senate	H.R. 8363 as agreed to by the conferees (Public Law)
(a) Same as House provision-----	(a) Same as House provision-----	(a) Same as House version.
(b) Methods of recapture: Same as House provision.	(b) Methods of recapture: Same as House provision.	(b) Methods of recapture: Same as House version.

Present law	Treasury recommendations	H.R. 8363 as passed by the House of Representatives
	<p>(c) Would provide rules for the recapture of deductions for the amortization of leaseholds and rental deductions.</p>	<p>-----</p> <p>(iii) If the real property is held for at least 1 full month more than 20 full months but less than 10 years, a percentage of the gain or of the "additional depreciation" (whichever is smaller) is taxed as ordinary income. The percentage is 100 percent minus 1 percentage point for each full month more than 20 full months that the property was held.</p> <p>(iv) Substantial improvements: In determining when property has been acquired, the bill defines the term "separate improvement" which is to be treated as a separate element for purposes of determining the amount to be treated as ordinary income upon the sale or exchange of real property. The term is defined as arising only where the cost of the improvements over a 3-year period is greater than the largest of the following 3 amounts—</p> <p>(1) 25 percent of the adjusted basis of the property;</p> <p>(2) 10 percent of the original cost of the property plus the cost of any improvements made prior to those being considered here less the cost of retired components; or</p> <p>(3) \$5,000.</p> <p>In applying this test, improvements in any one of the 3 years involved are to be omitted entirely if they do not amount to at least \$2,000, or 1 percent of the original cost of the property plus the cost of any improvements previously made (less the cost of retired components) whichever is greater.</p> <p>(v) Except as listed below, this bill applies to all depreciable real property (other than sec. 1245 property) including leases of unimproved real estate with regard to which depreciation may be taken and applies to all sales, exchanges, and transfers of such property other than those excepted hereafter:</p> <p>(1) In general, gifts are completely excepted.</p> <p>(2) Transfers at death are excepted completely (unless sec. 691 applies).</p> <p>(3) Certain tax-free transfers in which the transferee takes over the transferor's basis, except to the extent that gain is recognized. These transfers are those to which sec. 332, 351, 361 371(a), 721, or 731 applies.</p> <p>(4) Certain amounts are excepted in the case of like-kind exchanges (under sec. 1031) or involuntary conversions (under sec. 1033).</p>

H.R. 8363 as ordered reported by Senate Committee on Finance	H.R. 8363 as passed by the Senate	H.R. 8363 as agreed to by the conferees (Public Law)

Present law	Treasury recommendations	H.R. 8363 as passed by the House of Representatives
		<p>(5) Transactions involving the exchange or sale of property in obedience to orders of the Federal Communications Commission or of the Securities and Exchange Commission.</p> <p>(6) In general, an exception is provided in the case of property distributed by a partnership in a pro rata distribution to its partners.</p> <p>(7) A disposition of a principal residence by a taxpayer who meets the age and ownership requirements of sec. 121.</p> <p>(vi) Leasehold improvements: Provides that in the case of leasehold improvements, in determining the norm for purposes of specifying "additional depreciation" which may be treated as ordinary income, periods for which a lease may be renewed, extended, or continued under an option exercisable by the lessee are generally to be taken into account. However, the renewal periods so taken into account are not to extend the amortization period by more than $\frac{3}{4}$ of the initial lease period remaining after the improvement was made.</p> <p>Effective date: This provision is to apply with respect to depreciation attributable to periods after Dec. 31, 1963, and to dispositions of property after that date.</p>

Sec. 232. Income

Present law	Treasury recommendations	H.R. 8363 as passed by the House of Representatives
<p>(a) Although no generally available income-averaging provision is provided, present law does contain 6 specific averaging provisions which are as follows:</p> <p>(i) Sec. 1301 relating to certain compensation for personal services. In this case, the employment involved must have covered more than 36 months and 80 percent of the compensation from the employment must be received in the current year.</p> <p>(ii) Sec. 1302 relating to income from inventions or artistic works. In this case, the work must have covered a period of 24 months or more and the income received with respect to it in the current year must have amounted to 80 percent or more of the income from the work (taking into account all prior years and 1 immediately future year).</p> <p>(iii) Sec. 1303 relating to certain income from back pay. In this case, the amount received in the current year must exceed 15 percent of the individual's income for that year.</p>	<p>(a) As a substitute for the existing averaging provisions (secs. 1301-1306), would provide a general averaging provision. Under the proposed provision, once the amount of income to be averaged is determined, the taxpayer would compute a tentative tax on $\frac{1}{4}$ of this amount by including it in the current year's income. The tax attributable to this $\frac{1}{4}$ would then be multiplied by 5 to determine the final tax on the averageable income.</p>	<p>(a) General rule: In general, this bill deletes the present law averaging provisions and substitutes in lieu thereof an income-averaging device which is available to individual taxpayers generally. In limited cases, the bill permits the continuation of the application of certain existing provisions. In effect, the bill provides for the averaging of income over a 5-year period where the income in the current year exceeds the average of the 4 prior years by more than $\frac{1}{4}$ and that excess equals at least \$3,000. Once the taxpayer computes what is called the averageable income the taxpayer computes a tentative tax on $\frac{1}{4}$ of the amount of the averageable income. The tax on this $\frac{1}{4}$ is determined by adding this income on top of $1\frac{1}{4}$ times the average income received in the prior 4 years plus the average capital gains income in the same 4-year period. The tax attributable to this $\frac{1}{4}$ is then multiplied by 5 to determine the final tax on this income.</p>

of certain depreciable realty—Continued

H.R. 8363 as ordered reported by Senate Committee on Finance	H.R. 8363 as passed by the Senate	H.R. 8363 as agreed to by the conferees (Public Law)
Effective date: Same as House provision.	Effective date: Same as House provision.	Effective date: Same as House version.

averaging

H.R. 8363 as ordered reported by Senate Committee on Finance	H.R. 8363 as passed by the Senate	H.R. 8363 as agreed to by the conferees (Public Law)
(a) Same as House provision.	(a) Same as House provision except as as noted below.	(a) Same as House version except as noted below.

Present law	Treasury recommendations	H.R. 8363 as passed by the House of Representatives
<p>(iv) Sec. 1304 relating to compensation for damages for patent infringements. In this case no specific eligibility rules are provided.</p> <p>(v) Sec. 1305 relating to breach of contract damages. In this case, no specific eligibility rules are provided.</p> <p>(vi) Sec. 1306 relating to damages for injuries under the antitrust laws. In this case, no specific eligibility rules are provided.</p> <p>(b) In the case of the averaging provisions above, the income tax attributable to the special type of income is determined by spreading the income back ratably over the period to which the income relates, except in the case of artistic work this may not exceed 36 months and in the case of the invention may not exceed 5 years. In each case, the tax is imposed as of the current year, although determined on the basis of making a recomputation for the back years involved at the rates applicable for those years.</p>	<p>(b) Income eligible for averaging:</p> <p>(i) Only income in the current year which exceeds by more than $\frac{1}{2}$ the average taxable income in the 4 prior years would be eligible for averaging;</p> <p>(ii) The excess amount would be eligible only if it exceeds \$3,000.</p> <p>(iii) Capital gains: Net long-term capital gains would be excluded from the 4 prior years and the current year in determining the amount of income which would be averaged; however, capital gains would be taken into account in the 4 prior years and in the current year in determining whether or not a taxpayer has sufficient income to be eligible for averaging.</p> <p>(iv) Gifts, bequests, etc.: In determining the amount of income with respect to which the averaging treatment would be available, there would be excluded any income (above some de minimis amount) which is attributable to property acquired by gifts, bequest, or inheritance during the current year and the 4 prior years.</p>	<p>(b) Definitions:</p> <p>(i) Averageable income: This income is the excess of the taxable income in the current year or the computation year—with certain adjustments—over $1\frac{1}{2}$ times the average base period income.</p> <p>(ii) Adjusted taxable income: This income is the taxable income for the computation year decreased by—</p> <p>(1) any capital gain net income for that year;</p> <p>(2) any income for that year attributable to gifts, bequests, devises, or inheritances received during that year or any of the 4 prior base period years;</p> <p>(3) any excess of wagering gains in the computation year, over wagering losses; and</p> <p>(4) certain amounts of income to which penalties apply with respect to the owner employees who are self-employed for pension plan purposes (sec. 72(m)(5)).</p> <p>(iii) Average base period income: This income is the average of the taxable income in the 4 prior years computed for each year with the following adjustments:</p> <p>(1) capital gains net income is excluded;</p> <p>(2) income from gifts, bequests, devises, or inheritances is excluded where taxable income in the computation year was decreased by such income; and</p> <p>(3) To this base period income must be added back any income which was excluded for the base period years on the grounds that it was earned in a foreign country (sec. 911) or on the grounds that it was income from sources within a possession of the United States.</p> <p>(c) Priority of tax: In determining the tax which is attributable to the income subject to averaging:</p> <p>(i) the 1st income subject to tax is to be the ordinary income not eligible for averaging;</p> <p>(ii) the income subject to the next higher income tax rates is the capital gain net income of the computation year but only to the extent this does not exceed the average base period capital gains net income;</p>

H.R. 8363 as ordered reported by Senate Committee on Finance	H.R. 8363 as passed by the Senate	H.R. 8363 as agreed to by the conferees (Public Law)
<p>(b) Definitions: Same as House provision.</p> <p>(c) Priority of tax: Same as House provision.</p>	<p>(b) Definitions: Same as House provision but modifies the term "capital gains net income" so as to reflect the deletion by this bill of sec. 219 of House bill, relating to capital gains [SA No. 169].</p> <p>(c) Priority of tax: Same as House provision.</p>	<p>(b) Definitions: House version modified by Senate amendments. Same as Senate version [SA No. No. 169-HR].</p> <p>(c) Priority of tax: Same as House version.</p>

Present law	Treasury recommendations	H.R. 8363 as passed by the House of Representatives
	<p>(c) Eligible individuals: In general, the proposed averaging treatment would be available only to taxpayers who are a part of the work force and are subject to U.S. tax. Thus, this provision would not be available in the case of a taxpayer who in the current year or any of the 4 prior taxable years—</p> <p>(A) had not attained the age of 19;</p> <p>(B) was claimed as a dependent by another taxpayer;</p> <p>(C) was a full-time student;</p> <p>(D) was a nonresident alien; or</p> <p>(E) was a U.S. citizen who claimed an exclusion for income earned abroad.</p>	<p>(iii) the income subject to the next higher income tax rates is the income subject to averaging, with respect to which $\frac{1}{4}$ is included, the tax then computed and the result multiplied by 5;</p> <p>(iv) the income subject to the next higher income tax rates is any remaining capital gains income in the computation year in excess of the average base period capital gains net income, income from wagering or gifts, bequests, devises, or inheritances.</p> <p>(d) Eligible individuals: To be eligible for the averaging provisions:</p> <p>(i) the individual's income must have been subject to tax by the United States throughout the entire base period as well as in the computation year;</p> <p>(ii) the individual must not have been a nonresident alien in any of the 4 base period years or in the computation year;</p> <p>(iii) the individual must be a citizen of the United States in the computation year;</p> <p>(iv) the individual must be claiming no exclusions in the computation year for income earned abroad. If claimed with respect to a base period year, this income must be added back to his base period income;</p> <p>(v) the individual in general must have been a member of the labor force in both the computation year and in the 4 base period years. In this case, the individual and his spouse must have furnished $\frac{1}{2}$ or more of their support in each of the base period years. Exceptions to the general rule:</p> <p>(1) Individuals generally are eligible for averaging if they are 25 years old and it would have been at least 4 years since the individual attained age 21 in which he was not a full-time student. Thus, individuals age 25 or over will be eligible for averaging so long as they have been out of school for at least 4 years since age 21.</p> <p>(2) individuals who although not self-supporting in the 4 base period years are nevertheless eligible for averaging if they have income in the current year more than $\frac{1}{4}$ of which is attributable in substantial part to work they did in 2 or more of the base period years.</p>

H.R. 8363 as ordered reported by Senate Committee on Finance	H.R. 8363 as passed by the Senate	H.R. 8363 as agreed to by the conferees (Public Law)
(d) Eligible individuals: Same as House provision.	(d) Eligible individuals: Same as House provision.	(d) Eligible individuals: Same as House version.

Present law	Treasury recommendations	H.R. 8363 as passed by the House of Representatives
	<p>(d) Separate and joint returns: Where because of marriage, divorce, separation, or death of a taxpayer in the current year, the taxpayer in that year would not have the same status as in the 4 prior years, the income in the 4 prior years would be adjusted to reflect the tax situation of the taxpayer which exists in the current year.</p> <p>(e) Carry-forwards and carrybacks of losses: The averaging treatment proposed in the case of carry-forwards of net operating losses would be applied after the application of these losses to all of the appropriate years. In the case of carrybacks of net operating losses, subsequent adjustments would be taken into account where such losses affect the actual year of computation but would not be taken into account where they affect merely some of the 4 prior years.</p> <p>(f) Other special situations: Adjustments to the proposed averaging provision would possibly be necessary in the case of certain special situations such as in the case of lump-sum pensions and profit-sharing plan distributions.</p> <p>Effective date: The amendments made by this provision would apply to taxable years beginning after Dec. 31, 1963.</p>	<p>(3) an individual who is not self-supporting in the base period and who makes a joint return with his spouse is also eligible for averaging if not more than 25 percent of the total adjusted gross income of the couple in the computation year is attributable to the individual in question.</p> <p>(e) Special rules with respect to marital status: Special rules are provided for reconstructing the income of a husband and wife where they either filed separately (or were married to other spouses) in the base period years or are filing separately in the computation year. In determining base period income for purposes of this provision, community property laws are not to be taken into account in the case of earned income.</p> <p>(f) Continuation of existing law: Permits a taxpayer to elect to apply the provision of present law (sec. 1301) where the taxpayer receives or accrues compensation for employment which began before Feb. 6, 1963. If this election is made, the taxpayer must forego for that year the averaging provisions of this section.</p> <p>Effective date: Taxpayers would be permitted to elect to apply the averaging provision with respect to taxable years beginning after Dec. 31, 1963. The 4 prior years may be years occurring before that time.</p>

H.R. 8363 as ordered reported by Senate Committee on Finance	H.R. 8363 as passed by the Senate	H.R. 8363 as agreed to by the conferees (Public Law)
<p>(e) Special rules with respect to marital status: Same as House provision.</p> <p>(f) Continuation of existing law: Same as House provision.</p>	<p>(e) Special rules with respect to marital status: Same as House provision.</p> <p>(f) Continuation of existing law: Same as House provision.</p>	<p>(e) Special rules with respect to marital status: Same as House version.</p> <p>(f) Continuation of existing law: Same as House version.</p>
	<p>Provides that taxpayers who elect averaging may use the standard deduction without regard to the limitations in sec. 144 of the code [SA No. 171].</p>	<p>Same as Senate version [SA No. 171—HR].</p>
<p>Effective date: Same as House provision.</p>	<p>Effective date: Same as House provision.</p>	<p>Effective date: Same as House version.</p>

Sec. 234. Repeal of additional 2-percent tax

Present law	Treasury recommendations	H.R. 8363 as passed by the House of Representatives
(a) Where an election to file a consolidated return is made, a special tax is levied of 2 percent of the consolidated taxable income of a group.	(a) Would eliminate the 2-percent tax on consolidated returns. Effective date: This provision would apply to taxable years beginning after Dec. 31, 1963.	(a) Repeals the 2-percent penalty tax in cases where consolidated returns are filed. Effective date: This provision applies to taxable years beginning after Dec. 31, 1963.

Sec. 235. Reduction of surtax exemption

Present law	Treasury recommendations	H.R. 8363 as passed by the House of Representatives
(a) In general: Corporations are taxed at a 30-percent rate on the 1st \$25,000 of taxable income and at a 52-percent rate on all income in excess of \$25,000. Thus, corporations are exempt from the 22-percent surtax on the 1st \$25,000 of taxable income.	(a) In general: Proposes that in the case of common ownership of related corporations, only 1 \$25,000 surtax exemption be granted to the related corporations to be divided equally among the related corporations unless they elect to apportion the exemption in some other manner. Would also provide similar rules with respect to the \$100,000 accumulated earnings tax credit and the 1st \$100,000 of estimated tax liability not subject to accelerated payment. (i) Common ownership: (1) Parent-subsidary corporations: In this group, a parent corporation owns at least 80 percent of the total combined voting power of all classes of stock entitled to vote or at least 80 percent of the total value of stock of 1 or more subsidiary corporations. This group also includes corporations below the 1st-tier subsidiary level which are 80-percent owned by the other corporations in the group. (2) Commonly controlled corporations: A commonly controlled subsidiary corporation would include a corporation, 80 percent of whose stock is owned by not more than 5 corporations.	(a) In general: Provides that if a controlled group exists, 3 basic alternatives are available to corporations which are members of the group: (1) The corporations in the group may forgo the use of multiple surtax exemptions; i.e., they each file separate income tax returns and allocate 1 \$25,000 surtax exemptions among the members of the group. (2) Corporations in the group may elect to pay a 6-percent penalty tax on the 1st \$25,000 of each corporation's taxable income, in which case each member of the group may claim a separate \$25,000 surtax exemption. (3) A controlled group which also qualifies as an affiliated group may file a consolidated income tax return, in which case only 1 \$25,000 surtax exemption is available. No change made in existing law with respect to intercorporate dividends among members of a controlled group. (i) Controlled group: (1) Parent-subsidary group: Same as Treasury recommendations. (2) Commonly controlled corporations: No change made in existing law.

for corporations filing consolidated returns

H.R. 8363 as ordered reported by Senate Committee on Finance	H.R. 8363 as passed by the Senate	H.R. 8363 as agreed to by the conferees (Public Law)
Same as House provision.	Same as House provision.	Same as House version.

in case of certain controlled corporations, etc.

H.R. 8363 as ordered reported by Senate Committee on Finance	H.R. 8363 as passed by the Senate	H.R. 8363 as agreed to by the conferees (Public Law)
Same as House provision except for minor technical changes [SA No. 180, 182, 186, and 189].	Same as reported by Finance Committee.	Same as House version except for minor technical changes [SA No. 180, 182, 186, and 189—HR].

Present law	Treasury recommendations	H.R. 8363 as passed by the House of Representatives
	<p>(3) Brother-sister corporations: This group would include any group of 2 or more corporations if at least 80 percent of the value or voting power of the stock of each is owned by not more than 5 individuals. Each must own 5 percent or more of the value or voting power of the stock of 1 corporation and each of the 5 or fewer individuals must own substantially the same proportion of the voting power or value of the stock of each corporation.</p> <p>(ii) Attribution rules: An individual will be deemed to constructively own stock owned by—</p> <ol style="list-style-type: none"> (1) his spouse, (2) his minor children and minor grandchildren (under 21 years), (3) his adult children and grandchildren and parents and grandparents but only if the individual owns more than 50 percent of the stock in the corporation the adult children have an interest in. <p>If the individual is a minor child, he is deemed to own stock held by his parents or grandparents.</p> <p>Stock would be attributable to another member of the family only once.</p> <p>Stock held under an option by an individual would also be attributed to him.</p>	<p>(3) Brother-sister corporations: This group exists where a single individual, trust, or estate owns at least 80 percent of the total combined voting power of all classes of stock entitled to vote, or at least 80 percent of the total value of all classes of stock of each of 2 or more corporations.</p> <p>Stock of the corporation is considered not to include nonvoting preferred stock, treasury stock, and "excluded stock" owned by certain individuals and trusts.</p> <p>(ii) Corporations not included in controlled group: Component member of a controlled group does not include—</p> <ol style="list-style-type: none"> (1) exempt organizations which do not have unrelated business income; (2) foreign corporations not engaged in trade or business in the United States; (3) certain franchised subsidiary corporations; and (4) in some cases, certain life insurance and mutual insurance companies. <p>(iii) Attribution rules:</p> <ol style="list-style-type: none"> (1) an individual is considered to own stock owned by his spouse except if— <ol style="list-style-type: none"> (A) the individual does not directly own stock in the corporation in which his spouse owns stock; (B) the individual is not a director or employee of such corporation and does not take part in the management of such corporation; (C) not more than 50 percent of the gross income of the corporation is derived from rents, royalties, dividends, interest, and annuities; and (D) the stock or the corporation owned by the spouse is not at any time during the taxable year subject to conditions which substantially restrict or limit the spouse's right to dispose of such stock if such right runs in favor of the individual or his children who have not attained age 21 years. (2) an individual is considered to own stock owned by his children who have not attained age 21. (3) an individual is considered to own the stock owned by his children who have attained age 21 and grandchildren only if such individual owns directly or indirectly more than 50 percent of the value or voting power of the stock in the corporation.

H.R. 8363 as ordered reported by Senate Committee on Finance	H.R. 8363 as passed by the Senate	H.R. 8363 as agreed to by the conferees (Public Law)

Present law	Treasury recommendations	H.R. 8363 as passed by the House of Representatives
<p>(b) Sec. 1551. If a corporation transfers all or part of its property (other than money) to a corporation which was created for the purpose of acquiring such property, or was not actively engaged in business at the time of the acquisitions, the transferee corporation is not permitted the \$25,000 surtax exemption or the \$100,000 accumulated earnings credit if after the transfer the transferor or its shareholders, or both, are in control of the transferee, unless the transferee establishes by the clear preponderance of the evidence that the securing of the surtax exemption or the accumulated earnings credit was not a major purpose of the transfer. This section applies only to direct transfers of property other than money and only to transfers from one corporation to another corporation.</p>	<p>(iii) Transition rule: The multiple surtax exemptions would be eliminated by gradually reducing the amount of extra surtax exemptions to zero in 1967, the 5th year of the transition. Similar transition rules would apply in the case of the accumulated earnings tax credit and the exemption from estimated tax.</p> <hr/> <p>Effective date: The multiple surtax exemption, accumulated earnings credit, and exemption from estimated tax proposals would apply to taxable years beginning after Dec. 31, 1963.</p>	<p>(4) there is no attribution between brothers and sisters. (5) limited attribution rules are provided in cases involving stock held by trusts, estates, partnerships, and corporations in which the individual has an interest. (iv) Election: All component members of the group must join in the election to obtain a multiple surtax exemption and such election must be made within 3 years after the close of a taxable year. Once made, an election may be terminated by— (1) consent of the members; (2) refusal of a new member of the controlled group to consent; (3) filing of a consolidated return by any component member of the group; or (4) termination of the group. If an election is terminated, the group may not again elect multiple exemptions until the expiration of 5 years. (v) Amendments to sec. 1551: (1) Amends existing sec. 1551 to also apply to indirect transfers of property other than money, as well as direct transfers. (2) Extends the application of sec. 1551 to transfers of property (other than money) by an individual to a corporation which he and not more than 4 other individuals control.</p> <p>Effective date: This provision applies to taxable years ending after Dec. 31, 1963, and in the case of fiscal years beginning in 1963 and ending in 1964, proration is required. The amendments relating to transfers to controlled corporations apply to transfers made after June 12, 1963.</p>

Sec. 301. Optional tax if adjusted

Present law	Treasury recommendations	H.R. 8363 as passed by the House of Representatives
<p>Under sec. 3 of the code, in general, there is imposed on the taxable income of each individual whose adjusted gross income is less than \$5,000, and who has elected to pay the tax imposed by that section, the tax shown in the table set out in sec. 3.</p> <p>Sec. 4 of the code sets forth rules to be used in applying the optional tax tables and sec. 6014 of the code relates to the computation of the tax where the tax is not computed by the taxpayer.</p>	<p>-----</p>	<p>The bill makes certain changes to secs. 3 and 4 of the code but, in general, retains the substantive rules contained in those sections. Sec. 6014 is amended to provide that a taxpayer who elects under that section not to compute his tax will not be entitled to have his tax determined with regard to the minimum standard deduction. Other technical amendments are also made.</p> <p>Effective date: In general, the amendments are to apply to taxable years beginning after Dec. 31, 1963.</p>

Sec. 302. Income tax

Present law	Treasury recommendations	H.R. 8363 as passed by the House of Representatives
<p>Provides a withholding tax rate of 18 percent.</p>	<p>Withholding tax rate of 18 percent would be reduced to 15.5 percent for payments on or after July 1, 1963, and further reduced to 13.5 percent as of July 1, 1964.</p>	<p>Withholding tax rate of 18 percent would be reduced to 15 percent for calendar year 1964 and to 14 percent for 1965 and subsequent years.</p>

gross income is less than \$5,000

H.R. 8363 as ordered reported by Senate Committee on Finance	H.R. 8363 as passed by the Senate	H.R. 8363 as agreed to by conferees (Public Law)
Same as House provision.	Same as House provision.	Same as House version.
Effective date: Same as House provision.	Effective date: Same as House provision.	Effective date: Same as House version.

collected at source

H.R. 8363 as ordered reported by Senate Committee on Finance	H.R. 8363 as passed by the Senate	H.R. 8363 as agreed to by the Conferees (Public Law)
Provides for withholding at a rate of 14 percent in 1964 (rather than at a rate of 15 percent for 1964 and 14 percent for 1965 and thereafter) [SA No. 204]. Provides that the new withholding rate of 14 percent is to apply with respect to amounts paid after the 7th day following the date of enactment of this act [SA No. 208].	Same as reported by Finance Committee.	Same as Finance Committee version [SA No. 204—HR]. Same as Finance Committee version [SA No. 208—HR].

Present law	Treasury recommendations	H.R. 8363 as passed by the House of Representatives
<p>Retirement income: In general, the maximum income on which a credit may be based is \$1,524. The amount of income upon which the credit is based is to be reduced for any tax-exempt social security, railroad retirement, or other similar income received by the individual and also for part or all of earned income in excess of \$1,200 per year (\$900 if the taxpayer is under age 62; no reduction if he is age 72 or over) received by the individual. The retirement income credit provision provides that an individual to be eligible for the retirement income credit must have had 10 years of prior earning experience, in each year of which he earned in excess of \$600. For this requirement, a widow or a widower may use the earnings experience of the deceased spouse; however, that credit contains no supplemental payment with respect to a spouse where that individual does not have the requisite prior 10 years' earning experience.</p>	<p>Would substitute a \$300 tax credit for taxpayers age 65 or over for the present \$600 additional exemption and the present retirement income credit.</p>	<p>Makes no change in existing law.</p>

on retirement income

H.R. 8363 as ordered reported by Senate Committee on Finance	H.R. 8363 as passed by the Senate	H.R. 8363 as agreed to by the conferees (Public Law)
<p>In general, provides that where the husband and wife have both attained the age of 65 before the close of the year and file a joint return, the maximum income on which the credit may be based is to be increased above the present ceiling of \$1,524 by \$762, or one-half of the present maximum.</p> <p>Where only 1 spouse has the requisite 10 years' experience his base for the retirement income credit would be increased by \$762 less the amount of any social security, railroad retirement, or other tax-exempt pension income received by his spouse and also by her earned income in excess of \$1,200 (on a 50-percent basis with respect to income between \$1,200 and \$1,700) assuming she has not reached the age of 72.</p> <p>If both husband and wife have the requisite 10 years' prior earning experience and if the sum of the retirement income, other tax-exempt pension income and excess earned income of one of them is less than \$762, the maximum of \$1,524 with respect to the other spouse is increased by the difference between such sum and \$762.</p> <p>Effective date: The increase in the retirement income credit applies to taxable years beginning after Dec. 31, 1963 [SA No. 8].</p>	<p>Same as reported by Finance Committee.</p>	<p>Finance Committee version with an amendment which provides that a husband and wife who make a joint return for the taxable year and both of whom have attained age 65 before the close of the taxable year may elect, in general, to combine their retirement income, in which case the amount of combined retirement income of both spouses is not to exceed \$2,286 less (as to both spouses) amounts received as pensions and annuities (including social security and railroad retirement benefits, and, if the individual has not attained the age of 72, the adjustments for earned income received in the taxable year [SA No. 8—HR with an amendment]).</p>

Present law	Treasury recommendations	H.R. 8363 as passed by the House of Representatives
<p>General rule: In general, a net operating loss may be carried back to each of 3 prior years and then to the extent of any loss still not offset against income, the balance may be carried forward to the 5 succeeding years, thus providing for an 8-year spreading period.</p> <p>Exceptions to the general rule: (1) Trade Expansion Act of 1962. Losses certified as arising with respect to this act are provided a 5-year carryback and a 5-year carryforward. (2) Regulated transportation companies. Losses in these cases are provided a 3-year carryback and a 7-year carryforward.</p>	-----	Makes no change in existing law.

Deduction for

Present law	Treasury recommendations	H.R. 8363 as passed by the House of Representatives
<p>No deduction or credit has been allowed for political contributions of any type.</p>	-----	Makes no change in existing law.

property by governments of foreign countries

H.R. 8363 as ordered reported by Senate Committee on Finance	H.R. 8363 as passed by the Senate	H.R. 8363 as agreed to by the conferees (Public Law)
<p>General: Allows a taxpayer to carry forward for 10 years (with no carry-back) expropriation losses arising in taxable years ending after Dec. 31, 1958, if such expropriation losses represent at least 50 percent of the total net operating loss for a year. Expropriation losses are those arising from expropriation by foreign governments or their subdivisions.</p> <p>Election: The taxpayer must elect this 10-year carryforward on or before the time specified by regulations to be prescribed. In the case of past years—namely, the years 1959 through 1963—taxpayers will have until Dec. 31, 1965, to make the election. In those cases, the statute of limitations will be open for deficiencies or refunds with respect to any years affected by the change and ending before 1964. A new election will also be provided with respect to the foreign taxes for that period.</p> <p>Types of losses: Losses involved are trade or business, or production of income, losses which are sustained by reason of the expropriation, intervention, seizure, or similar taking of property by the government of any foreign country, any political subdivision thereof, or agency or instrumentality of the foregoing.</p> <p>Treatment: The regular net operating loss for a year will be carried back and used to the extent of the income in the 3 prior years. The remaining regular net operating loss will be carried forward to the next year and used first. An expropriation loss for a year will be used in that year only after the regular net operating loss is fully applied in the first carryforward year.</p> <p>Effective date: Applies with respect to foreign expropriation losses arising in taxable years ending after Dec. 31, 1958 [SA No. 43].</p>	<p>Same as reported by Finance Committee, but modified to provide that for purposes of this provision, a debt which becomes worthless shall be treated as a loss, to the extent of any deduction allowed under section 166(a) relating to bad debts.</p>	<p>Same as Senate version [SA No. 43—HR with an amendment].</p>

political contributions

H.R. 8363 as ordered reported by Senate Committee on Finance	H.R. 8363 as passed by the Senate	H.R. 8363 as agreed to by the conferees (Public Law)
<p>In the case of individuals, allows a tax deduction for political contributions not to exceed \$50 in the case of a separate return or \$100 in the case of a joint return. These are aggregate limitations covering all political contributions each year. To be deductible, the contribution or gift must be to a "political candidate" or "political committee."</p> <p>Effective date: Applies to contributions or gifts made after date of enactment [SA No. 53].</p>	<p>Same as reported by Finance Committee.</p>	<p>Same as House version; i.e., makes no change in existing law [SA No. 53—SR].</p>

Present law	Treasury recommendations	H.R. 8363 as passed by the House of Representatives
Intercorporate dividends among parent-subsidary related corporations are eligible for an 85-percent dividends-received deduction.	Intercorporate dividends among parent-subsidary related corporations would be eligible for a 100-percent dividends-received deduction.	Makes no change in existing law.

deduction for members of electing affiliated groups

H.R. 8363 as ordered reported by Senate Committee on Finance	H.R. 8363 as passed by the Senate	H.R. 8363 as agreed to by the conferees (Public Law)
<p>General rule: A 100-percent dividends-received deduction is allowed when qualifying dividends are paid by a domestic corporation.</p> <p>Dividends eligible: To be eligible for the 100-percent deduction (1) the receiving and distributing corporations must be members of the same affiliated group at the time of distribution; (2) the dividends must be distributed out of earnings and profits of certain qualifying years ending after Dec. 31, 1963; (3) the distributing and receiving corporations must be members of the group which has elected to qualify for the 100-percent deduction.</p> <p>Affiliated group: This term is defined in the same manner as an affiliated group for purposes of the requirement for filing a consolidated return with certain exceptions as noted below.</p> <p>Election: The election must be made by the parent corporation and consented to by each of the subsidiary corporations. In addition (1) the election is effective for the taxable year of the subsidiary which includes the last day of the year of the parent with respect to which the election was initially made; (2) the election applies automatically for each succeeding year unless the election is specifically terminated; (3) special rules are provided with respect to fiscal years beginning in 1963 and ending in 1964; (4) the election may be terminated if each member of the group consents to the termination or it may be terminated if a new member is added and such member does not consent to the election.</p> <p>Limitations: If the election is made, the following treatment applies: (1) Only 1 surtax exemption may be received by the group; (2) all members of the group must make the same election with respect to foreign taxes; (3) only one \$100,000 minimum accumulated earnings credit is available to the group; (4) only one \$100,000 exclusion from the estimated tax liability will be available to the entire group; (5) only one \$25,000 limitation on the small business deduction of life insurance companies is available to the group; (6) with respect to the maximum amount of exploration expenditures in connection with mineral deposits which may be written off or treated as deferred expenses, the group will be eligible to write off only one \$100,000 in any one year with a total of \$400,000 over any number of years.</p>	<p>Same as reported by Finance Committee.</p>	<p>Same as Finance Committee version [SA No. 54—HR].</p>

Present law	Treasury recommendations	H.R. 8363 as passed by the House of Representatives

Sec. 216. Interest on indebtedness incurred or

Present law	Treasury recommendations	H.R. 8363 as passed by the House of Representatives
No deduction is allowed for interest on indebtedness incurred or continued to purchase or carry obligations the interest on which is exempt from Federal income taxes. It has been held that interest paid on indebtedness represented by deposits in banks engaged in the general banking business is not subject to this provision.	-----	Makes no change in existing law--

Sec. 217. Repeal of requirement of

Present law	Treasury recommendations	H.R. 8363 as passed by the House of Representatives
The Revenue Act of 1962 provided that where a person takes a business trip and that trip is combined with recreational or personal activities, the cost of the trip in certain cases must be allocated between the business and the personal activity, and only the expenses allocated to the business portion are deductible for income tax purposes.	-----	Makes no change in existing law---

for members of electing affiliated groups—Continued

H.R. 8363 as ordered reported by Senate Committee on Finance	H.R. 8363 as passed by the Senate	H.R. 8363 as agreed to by the conferees (Public Law)
<p>Life insurance companies: Dividends from or to life insurance companies and mutual casualty insurance companies will be eligible for the 100-percent dividends-received deduction if the entire affiliated group of which the insurance company is a member consents to this tax treatment and, in the case of dividends from an insurance company, certain additional requirements are met.</p> <p>Effective date: Applies with respect to dividends received in taxable years ending after Dec. 31, 1963 [SA No. 54].</p>		

continued to purchase or carry tax-exempt bonds

H.R. 8363 as ordered reported by Senate Committee on Finance	H.R. 8363 as passed by the Senate	H.R. 8363 as agreed to by the conferees (Public Law)
<p>Certain financial institutions which are subject to the banking laws of the State in which they are incorporated are not to be denied interest deductions under section 265(2) on face-amount certificates (as defined in the Investment Company Act of 1940) or on amounts received for the purchase of these certificates. Interest on these face-amount certificates is to be so treated only to the extent that the average amount of investments of the institution in tax-exempt obligations does not comprise more than 25 percent of the average of the total assets of the institution. Total assets means gross assets (taken at cost) less all of the liabilities other than the liability on the face-amount certificates.</p> <p>Effective date: Applies with respect to taxable years ending after date of enactment of the bill [SA No. 57].</p>	<p>Same as reported by Finance Committee.</p>	<p>Finance Committee version modified to provide for a 15-percent limitation rather than 25 percent [SA No. 57—HR with an amendment].</p>

allocation of certain traveling expenses

H.R. 8363 as ordered reported by Senate Committee on Finance	H.R. 8363 as passed by the Senate	H.R. 8363 as agreed to by the conferees (Public Law)
<p>Repeals the provision enacted by the Revenue Act of 1962 which requires the allocation of travel expenses in the case of certain trips combining business and personal activities.</p> <p>Effective date: Repeals the travel allocation rule retroactive to the effective date of such provision, i.e., for periods after Dec. 31, 1962 [SA No. 58].</p>	<p>Same as reported by Finance Committee.</p>	<p>Finance Committee version but modified so as to repeal existing law only with respect to domestic travel [SA No. 58—HR with an amendment].</p>

Sec. 218. Acquisition of stock in exchange for stock of

Present law	Treasury recommendations	H.R. 8363 as passed by the House of Representatives
<p>A subsidiary corporation can acquire in a tax-free reorganization the assets of another corporation in exchange for its parent company's stock. However, a subsidiary corporation cannot acquire in a tax-free reorganization the stock of another corporation in exchange for the stock of its parent corporation. In this latter case, present law requires that the subsidiary corporation transfer its own stock in exchange for the stock of the other corporation, rather than the stock of its parent.</p>	-----	Makes no change in existing law---

Sec. 219. Retroactive qualification of certain

Present law	Treasury recommendations	H.R. 8363 as passed by the House of Representatives
<p>A pension trust qualifies for an income tax exemption only if it meets certain requirements relating to coverage of employees and nondiscrimination of contributions or benefits. If a pension trust is properly qualified, it is tax-exempt from Federal taxation with respect to its income and contributions paid to it by an employer on behalf of its employees are deductible for Federal income tax purposes.</p>	<p>Recommended that general authority be given to the Treasury Department to qualify certain multi-employer pension plans retroactively to the date of their creation where certain tests are met.</p>	Makes no change in existing law---

corporation which is in control of acquiring corporation

H.R. 8363 as ordered reported by Senate Committee on Finance	H.R. 8363 as passed by the Senate	H.R. 8363 as agreed to by the conferees (Public Law)
Allows a transaction in which a subsidiary corporation acquires the stock of another corporation (and after that is in control of the corporation) in exchange solely for the voting stock of its parent corporation to qualify as a tax-free reorganization. Also permits the subsidiary corporation acquiring the stock of another corporation in the "(B) reorganization" to transfer all or part of this stock to another corporation which it controls. Effective date: Applies with respect to transactions after Dec. 31, 1963 [SA No. 59].	Same as reported by Finance Committee.	Same as Finance Committee version [SA No. 59—HR].

union-negotiated multiemployer pension plans

H.R. 8363 as ordered reported by Senate Committee on Finance	H.R. 8363 as passed by the Senate	H.R. 8363 as agreed to by the conferees (Public Law)
Empowers the Secretary of the Treasury to designate certain union-negotiated pension plans as "qualified" for tax purposes for the period beginning on the date on which contributions are first made to or for a trust forming part of the plan, rather than on the date it actually becomes a "qualified plan." To be eligible for retroactive qualification, it must be established to the satisfaction of the Secretary of the Treasury that 3 conditions have been met: (1) That the trust was created under a collective-bargaining agreement with 2 or more employers who are not related; (2) that the disbursements made from the trust prior to actual qualification substantially met the tests under which the pension plan subsequently qualifies; and (3) that prior to the time the trust constituted a qualified trust, the contributions made to that trust were not used in a manner which would jeopardize the interests of the beneficiaries. Effective date: This provision applies to taxable years beginning after Dec. 31, 1953, and ending after Aug. 16, 1954, but only with respect to contributions made after Dec. 31, 1954 [SA No. 60].	Same as reported by Finance Committee.	Same as Finance Committee version [SA No. 60—HR].

Present law	Treasury recommendations	H.R. 8363 as passed by the House of Representatives
<p>A domestic corporation may extend old-age and survivors insurance coverage to U.S. citizens employed by its foreign subsidiaries, in which it has at least a 20-percent voting stock interest (or by a foreign subsidiary of such a foreign subsidiary if the first has at least a 50-percent voting stock interest in the second), but a domestic corporation cannot cover the U.S. citizens who are employees of its foreign subsidiary under its qualified pension, profit-sharing, stock bonus, annuity, or bond purchase plan without also covering noncitizens. In addition, the foreign subsidiary corporation cannot establish a similar pension, etc., plan and obtain qualification from the Internal Revenue Service unless it includes in that plan the foreign nationals on its payroll on a nondiscriminatory basis.</p>	<p>-----</p>	<p>Makes no change in existing law---</p>

H.R. 8363 as ordered reported by Senate Committee on Finance	H.R. 8363 as passed by the Senate	H.R. 8363 as agreed to by the conferees (Public Law)
<p>General rule: Provides that U.S. citizens who are employees of certain subsidiaries of a domestic corporation may under certain circumstances be included for coverage under a qualified pension, profitsharing, etc., plan of the domestic corporation.</p> <p>Qualifications: To qualify for coverage, the U.S. citizen employee of the foreign or domestic subsidiary of the domestic parent corporation must not be covered under any other person's funded plan of deferred compensation. If he is an employee of a foreign subsidiary, the domestic parent must have entered into an agreement with the Treasury Department to cover the U.S. citizen employees of the subsidiary for social security purposes, and coverage under the plan of such parent must be provided for U.S. citizen employees of all its foreign subsidiaries covered under such social security agreement. If he is an employee of a domestic subsidiary, the plan of the parent must provide coverage for U.S. citizen employees of all of its domestic subsidiaries.</p> <p>Definitions:</p> <p>Foreign subsidiary: The parent corporation must have at least a 20-percent voting stock interest in the foreign subsidiary. Also covered are subsidiaries of such a foreign subsidiary where the first foreign subsidiary has more than a 50-percent voting stock interest in the second.</p> <p>Domestic subsidiary: To qualify, 95 percent or more of the domestic subsidiary's gross income for the taxable year and the 2 prior years must be derived from sources without the United States and 90 percent or more of its gross income for the same period must be derived from the active conduct of a trade or business. In addition, its voting stock must be held to the extent of 80 percent or more by the domestic parent corporation.</p> <p>Deduction: The domestic parent corporation will not receive a deduction for its contribution to the plan.</p> <p>Employee: For purposes of the plan, the individual involved will be treated as if he were an employee of the domestic parent corporation for purposes of applying the provisions of the Internal Revenue Code relating to annuities, employee's death benefits, and estate and gift taxes.</p> <p>Effective date: The general effective date is to be taxable years ending after Dec. 31, 1963 [SA No. 61].</p>	<p>Same as reported by Finance Committee.</p>	<p>Finance Committee version with a technical and clerical amendment [SA No. 61—HR with amendments].</p>

Present law	Treasury recommendations	H.R. 8363 as passed by the House of Representatives
<p>A taxpayer using installment sale reporting can defer income for tax purposes until payments are received under the contract (rather than treating the entire amount as income as of the time the sale is made). Under existing regulations issued by the Treasury Department, installment sale treatment is afforded to about 80 percent of revolving credit sales.</p>		Makes no change in existing law --

Sec. 223. Timing of deductions and credits in

Present law	Treasury recommendations	H.R. 8363 as passed by the House of Representatives
<p>Prior to the case of the <i>United States v. Consolidated Edison Company of New York, Inc.</i>, 366 U.S. 380 (1961), it was generally held that the payment of a contested tax liability resulted in the tax being considered as deductible in the year paid even though the tax was denied and contested. The <i>Consolidated Edison</i> case held that a contested tax even when paid does not accrue as a deduction in the year paid for income tax purposes until the contest is settled.</p>		Makes no change in existing law --

dealers in personal property

H.R. 8363 as ordered reported by Senate Committee on Finance	H.R. 8363 as passed by the Senate	H.R. 8363 as agreed to by the conferees (Public Law)
<p>Provides that revolving credit plans may be eligible for installment sales treatment for tax purposes by adding a definition for the terms "installment plan" and "total contract price" to the code.</p> <p>Installment plan: Under this definition, installment sale treatment would be extended to income received under any plan which provides for the payment by the purchaser for personal property sold to him in a series of periodic installments of an agreed part or installment of the debt due the seller. This would also extend installment sale treatment to sales which are paid for in full on the 1st billing for the month of purchase, and sales for a month which in total amount to less than the monthly payment agreed to be paid by the purchaser under the revolving credit contract.</p> <p>Total contract price: This term would include finance and service charges with respect to revolving credit sales in the amount subject to installment sale treatment.</p> <p>Effective date: Applies with respect to sales made in taxable years beginning after Dec. 31, 1963 [SA No. 96].</p>	<p>Same as reported by Finance Committee.</p>	<p>Same as Finance Committee version modified to define the term "installment plan" to include a revolving credit-type plan which provides that the purchaser of personal property at retail may pay for such property in a series of periodic payments of an agreed portion of the amounts due the dealer under the plan, except that such term does not include any such plan with respect to a purchaser who uses his account primarily as an ordinary charge account. The provision which included finance and service charges in the installment sales is deleted. [SA No. 96—HR with an amendment].</p>

certain cases where asserted liabilities are contested

H.R. 8363 as ordered reported by Senate Committee on Finance	H.R. 8363 as passed by the Senate	H.R. 8363 as agreed to by the conferees (Public Law)
<p>Adopted H.R. 4040 as reported by the Committee on Ways and Means.</p> <p>Provides that if a taxpayer contests any asserted liability, such as a tax assessment, but makes a payment in satisfaction of this liability and the contest with respect to the liability exists after the payment, then the item involved is to be allowed as a deduction or credit in the year of payment. Where a payment is not made until after the contest is settled, a taxpayer on an accrual basis is not prevented from accruing the deduction or credit in an earlier year in which the contest is settled.</p>	<p>Same as reported by Finance Committee.</p>	<p>Finance Committee version modified so as not to apply in respect of any credit against tax nor in respect of the deduction for income, war profits, and excess profits taxes imposed by the authority of any foreign country or possession of the United States [SA No. 97—HR with an amendment].</p>

Present law	Treasury recommendations	H.R. 8363 as passed by the House of Representatives

Sec. 228. Insurance

Present law	Treasury recommendations	H.R. 8363 as passed by the House of Representatives
(a) Mutualization: In cases where a stock life insurance company is mutualized, i.e., converted into a mutual life insurance company (under an agreement entered into before Jan. 1, 1958), with a liquidating distribution being made to the shareholders and the remainder of the surplus and reserves being held for the benefit of the policy holders, a special deduction was provided for these liquidating payments to the shareholders made in 1958-61.		(a) Mutualization: Makes no change in existing law.

H.R. 8363 as ordered reported by Senate Committee on Finance	H.R. 8363 as passed by the Senate	H.R. 8363 as agreed to by the conferees (Public Law)
<p>Effective date: General rule: Except as provided below, applies to payments made in taxable years beginning after Dec. 31, 1953, and ending after Aug. 16, 1954. Also applies to payments in taxable years to which the 1939 Code applies.</p> <p>Election: With respect to taxable years beginning before Jan. 1, 1964, a taxpayer may elect within 1 year after the date of enactment of this bill to claim the deduction or credit in the year in which the contest is settled rather than in the year in which the payment is made. If the election is made, it may not be changed after the expiration of the 1-year period, and such rule must be followed with respect to all payments made in a year beginning before Jan. 1, 1964. The election may not be made with respect to barred years. If made with respect to a year which is not barred, the period for assessment of any deficiency arising from this election is to be kept open at least until 2 years after date of enactment of the bill.</p> <p>Deduction: Where for a past year no deduction or credit was allowed for a payment in a year before the contest with respect to it was settled and the refund or credit which would result from the deduction in the earlier year is barred, then the deduction is to be allowed in the year in which the contest is settled [SA No. 97].</p>		

companies

H.R. 8363 as ordered reported by Senate Committee on Finance	H.R. 8363 as passed by the Senate	H.R. 8363 as agreed to by the conferees (Public Law)
<p>(a) Mutualization: Provides that the special liquidating distribution deduction treatment of present law for the years 1958-61 under a mutualization agreement entered into before 1958 is also to apply to distributions in 1962.</p> <p>Effective date: Applies to taxable years beginning after Dec. 31, 1961 [SA No. 162].</p>	<p>(a) Same as reported by Finance Committee.</p>	<p>(a) Mutualization: Same as Finance Committee version [SA No. 162—H R].</p>

Present law	Treasury recommendations	H.R. 8363 as passed by the House of Representatives
<p>(b) Accrual of bond discount: Stock, fire, and casualty insurance companies and corporations generally are not required to accrue discount (either that arising at the time of issue or market) on bonds purchased at a discount by them. These corporations ordinarily treat market discount on both taxable and nontaxable bonds as capital gains (or loss) when the bond is sold or disposed of by them and treat original issue discount on taxable bonds as ordinary income when it is realized. Small mutual companies and life insurance companies must treat this discount currently as ordinary income.</p> <p>(c) Contributions to qualified pension plans: Allows a deduction to an employer for contributions to an employees' trust or annuity plan and compensation under a deferred payment plan except that in the case of stock casualty insurance companies the lack of an appropriate cross reference leaves the results unclear.</p>	<p>-----</p> <p>-----</p>	<p>(b) Accrual of bond discount: Makes no change in existing law.</p> <p>(c) Contributions to qualified pension plans: Makes no change in existing law.</p>

Sec. 229. Regulated

Present law	Treasury recommendations	H.R. 8363 as passed by the House of Representatives
<p>(a) Time for mailing notices: With respect to certain special tax features accorded regulated investment companies, the shareholder must be given notice with respect to such features within 30 days after the close of the regulated investment company's taxable year.</p>	<p>-----</p>	<p>Makes no change in existing law..</p>

H.R. 8363 as ordered reported by Senate Committee on Finance	H.R. 8363 as passed by the Senate	H.R. 8363 as agreed to by the conferees (Public Law)
<p>(b) Accrual of bond discount: Provides that market discount received by any insurance company will be taxed as a capital gain. In the case of original issue discount on taxable bonds, this discount will be reported by small mutual companies as ordinary income when it is realized upon disposition. Life insurance companies, however, will continue to accrue discount arising at time of issue currently on both taxable and tax-exempt bonds.</p> <p>Effective date: Applies to taxable years beginning after Dec. 31, 1962 [SA No. 162].</p> <p>(c) Contributions to qualified pension plans: Amends existing law to make it clear that a deduction will be allowable to casualty insurance companies for their contributions to qualified pension plans, etc.</p> <p>Effective date: Applies to taxable years beginning after Dec. 31, 1953, and ending after Aug. 16, 1954 [SA No. 162].</p>	<p>(b) Same as reported by Finance Committee.</p> <p>(c) Same as reported by Finance Committee.</p>	<p>(b) Accrual of bond discount: Same as Finance Committee version [SA No. 162—HR].</p> <p>(c) Contributions to qualified pension plans: Same as Finance Committee version [SA No. 162—HR].</p>

investment companies

H.R. 8363 as ordered reported by Senate Committee on Finance	H.R. 8363 as passed by the Senate	H.R. 8363 as agreed to by the conferees (Public Law)
<p>(a) Time for mailing notices: Provides that regulated investment companies be given 45 days rather than 30 days after the end of the year to issue notice to its shareholders with respect to the special tax features listed below. Adopted H.R. 6995 as reported by the Committee on Ways and Means.</p> <p>(1) Dividends which are designated as capital gain dividends (sec. 852(b)(3)(C));</p> <p>(2) The amount of capital gain reported by the company and on which it pays a 25-percent tax in lieu of distributing such net long-term capital gains to its shareholders (sec. 852(b)(3)(D)(i));</p> <p>(3) The amount of any income, war profits, and excess profits taxes paid by the company to a foreign country which is treated as distributed to its shareholders (sec. 853(c));</p> <p>(4) In cases where less than 75 percent of the company's gross income represents dividend income (sec. 854(b)(2)), the amount the shareholder receives as a dividend and which he must treat as a dividend for certain purposes;</p> <p>(5) The dividends which are considered as paid out in an earlier year (sec. 855(c)).</p> <p>Effective date: Applies to taxable years of regulated investment companies ending on or after date of enactment [SA No. 163].</p>	<p>(a) Time for mailing notices: Same as reported by Finance Committee.</p>	<p>(a) Time for mailing notices: Same as Finance Committee version [SA No. 163—HR].</p>

Present law	Treasury recommendations	H.R. 8363 as passed by the House of Representatives
(b) Redemption by unit investment trusts: Mutual funds are treated for tax purposes as regulated investment companies. Unit investment trusts are associated with a mutual fund, and these unit investment trusts are also classified as regulated investment companies. In certain cases where 1 investor liquidates his interest in 1 of the unit investment trusts, the trust sells the stock, and the proceeds are distributed to 1 investor, the distribution it is said is a "preferential dividend" and thus, does not result in a dividends paid deduction to the trust.	-----	Makes no change in existing law---

Foreign tax credit with respect

Present law	Treasury recommendations	H.R. 8363 as passed by the House of Representatives
See discussion under sec. 226-----	See discussion under sec. 226-----	See discussion under sec. 226-----

Amounts received from employer on sale of residence

Present law	Treasury recommendations	H.R. 8363 as passed by the House of Representatives
See discussion under sec. 213-----	See discussion under sec. 213-----	See discussion under sec. 213-----

Sec. 233. Small

Present law	Treasury recommendations	H.R. 8363 as passed by the House of Representatives
In the case of certain small business corporations which are not members of an affiliated group, the earnings of that corporation may be taxed to the shareholders in the same manner as partnership earnings are taxed to the partners. Shareholders are taxed each year on the dividend income received plus any additional earnings of the corporation which are retained and undistributed. Retained earnings distributed in a later year will be treated as a dividend distribution to the shareholders to the extent of the earnings and profits of that later year. If, in that later year, the corporation ceases to be an "electing small business corporation," then all distributions are treated as being dividends to the full extent of both current and accumulated earnings and profits. Thus shareholders may pay tax on the full capital gains in the year the corporation sells its property and any distribution of the gain to them in a later year will be treated as an ordinary dividend to the extent of the current earnings and profits of the later year.	-----	Makes no change in existing law---

H.R. 8363 as ordered reported by Senate Committee on Finance	H.R. 8363 as passed by the Senate	H.R. 8363 as agreed to by the conferees (Public Law)
(b) Redemption by unit investments trusts: Provides that in the case of a redemption by a unit investment trust of the investor's stock (in whole or in part), the redemption will not be considered as a "preferential dividend." Effective date: Applies to taxable years of regulated investment companies ending after Dec. 31, 1963. This amendment is not intended to have any effect on prior law [SA No. 163].	(b) Redemption by unit investment trusts: Same as reported by Finance Committee.	(b) Redemption by unit investment trusts: Same as Finance Committee version [SA No. 163—HR].

to certain foreign mineral income

H.R. 8363 as ordered reported by Senate Committee on Finance	H.R. 8363 as passed by the Senate	H.R. 8363 as agreed to by the conferees (Public Law)
See discussion under sec. 226 [SA No. 164].	See discussion under sec. 226-----	See discussion under sec. 226 [SA No. 164—SR].

of employee in connection with transfer to new place of work

H.R. 8363 as ordered reported by Senate Committee on Finance	H.R. 8363 as passed by the Senate	H.R. 8363 as agreed to by the conferees (Public Law)
See discussion under sec. 213 [SA No. 165].	See discussion under sec. 213-----	See discussion under sec. 213 [SA No. 165—SR].

business corporations

H.R. 8363 as ordered reported by Senate Committee on Finance	H.R. 8363 as passed by the Senate	H.R. 8363 as agreed to by the conferees (Public Law)
(a) Ownership of certain stock: Adopted H.R. 8798 as reported by the Committee on Ways and Means. Provides in general that a corporate member of an affiliated group may elect subch. S treatment if the only other members of the group are inactive subsidiary corporations [SA No. 177]. (b) Certain distributions of money: Provides that in the case of an electing small business corporation, a distribution of money to the shareholders on or before the 15th day of the 3d month following the close of a taxable year, may, at the election of the corporation, be treated as a distribution of money made on the last day of the taxable year in question. The election is available whether or not the corporation involved is an electing small business corporation in the 2d year. Effective date: Applies to taxable years beginning after Dec. 31, 1957 [SA No. 177].	(a) Ownership of certain stock: Same as reported by Finance Committee. (b) Certain distributions of money: Same as reported by Finance Committee.	(a) Ownership of certain stock: Same as Finance Committee version [SA No. 177—HR]. (b) Certain distributions of money: Same as Finance Committee version [SA No. 177—HR].

Sec. 236. Validity of tax liens against mortgagees,

Present law	Treasury recommendations	H.R. 8363 as passed by the House of Representatives
An assessed tax if not paid within 10 days after notice and demand constitutes a lien upon all of the property of the taxpayer, both real and personal. Such a lien is valid as against a purchaser, mortgagee, or judgment creditor only if notice of the tax lien has been filed in certain designated places. Ordinarily, liens against automobiles and trucks are not filed or recorded in designated places such as the county recorder's office, and, accordingly, the certificates of title do not show any Government tax liens.	-----	Makes no change in existing law---

PART

Sec. 237. Earned income of citizens of the United

Present law	Treasury recommendations	H.R. 8363 as passed by the House of Representatives
In the case of a U.S. citizen who is a bona fide resident of a foreign country for more than 3 years, provides an exclusion from gross income of up to \$35,000 of earned income. Where a bona fide resident for less than 3 years, an exclusion of \$20,000 is provided. In the case of a U.S. citizen who is present in a foreign country for 17 out of 18 consecutive months, provides an exclusion of \$20,000.	-----	Makes no change in existing law---

Head

Present law	Treasury recommendations	H.R. 8363 as passed by the House of Representatives
An individual is considered a head of a household if such person is not married at the close of the taxable year and maintains a household if— (a) in the case of a son, stepson, etc., such person lives in the house, even though not a dependent; (b) in the case of a married son, etc., such person lives in the house, and is also a dependent; (c) in the case of a person other than a son, etc., if such person lives in the house and is also a dependent. (d) in the case of a mother or father, such person is a dependent even though such person does not live in the taxpayer's house, provided he maintains a household for them.	-----	Makes no change in existing law---

pledgees, and purchasers of motor vehicles

H.R. 8363 as ordered reported by Senate Committee on Finance	H.R. 8363 as passed by the Senate	H.R. 8363 as agreed to by the conferees (Public Law)
<p>Provides that the lien of the Federal Government will not be effective against a purchaser, mortgage lender, or pledgee of a motor vehicle unless the purchaser, mortgage lender, or pledgee has actual notice or knowledge of the existence of the Government's lien.</p> <p>Effective date: Applies only with respect to mortgages, pledges, and purchases made after date of enactment [SA No. 193].</p>	<p>Same as reported by Finance Committee.</p>	<p>Finance Committee version modified so that the lien is not to be valid with respect to a motor vehicle as against a purchaser only if at the time of the purchase the purchaser is without notice or knowledge of the existence of such lien and before the purchaser obtains such notice or knowledge, he acquires possession of the motor vehicle and does not thereafter relinquish possession of the motor vehicle to the seller or his agent. It was agreed also that the tax lien will abate with respect to the motor vehicle in question and will not be valid against any subsequent purchaser (or other successor in interest) of the vehicle [SA No. 193—HR with an amendment].</p>

III
States from sources without the United States

H.R. 8363 as ordered reported by Senate Committee on Finance	H.R. 8363 as passed by the Senate	H.R. 8363 as agreed to by the conferees (Public Law)
<p>Makes no change in existing law----</p>	<p>Provides that in the case of U.S. citizens who are present in the foreign country for 17 out of 18 consecutive months, or who are bona fide residents of a foreign country for not more than 3 years, the limitation on the exclusion from gross income is to be \$4,000 (instead of \$20,000); and in the case of a U.S. citizen who is a bona fide resident of a foreign country for more than 3 years the exclusion is to be \$6,000 (instead of \$35,000).</p> <p>Effective date: Applies only with respect to taxable years beginning after Dec. 31, 1963 [SA No. 194].</p>	<p>Reduces to \$25,000 from \$35,000 the present exclusion allowed U.S. citizens who are bona fide residents of a foreign country for more than 3 years and makes this provision applicable for taxable years beginning after Dec. 31, 1964. Makes no other change in existing law [SA No. 194—HR with an amendment].</p>

of households

H.R. 8363 as ordered reported by Senate Committee on Finance	H.R. 8363 as passed by the Senate	H.R. 8363 as agreed to by the conferees (Public Law)
<p>Makes no change in existing law----</p>	<p>Provides head of household treatment for any individual who maintains a household for any person who is a dependent whether or not he lives with the taxpayer.</p> <p>Effective date: Applies to taxable years beginning after Dec. 31, 1963 [SA No. 195].</p>	<p>Same as House version, i.e., makes no change in existing law [SA No. 195—SR].</p>

Sec. 238. Losses arising from

Present law	Treasury recommendations	H.R. 8363 as passed by the House of Representatives
Losses of personal residences and other nonbusiness property occasioned by expropriation, intervention in, or confiscation by a foreign government are not deductible.	-----	Makes no change in existing law---

Sec. 239. Credit or refund

Present law	Treasury recommendations	H.R. 8363 as passed by the House of Representatives
A credit or refund is allowed for FICA tax paid by an employee who is subsequently covered under a retroactive agreement with a State of which he is an employee, but no similar rule applies to permit refund for an individual who paid self-employment tax.	-----	Makes no change in existing law---

Sec. 240. Extension of time for payment of estate tax on

Present law	Treasury recommendations	H.R. 8363 as passed by the House of Representatives
Time for paying estate tax on value of reversionary or remainder interest in property (in the case of hardship) may be extended for a reasonable period not in excess of 2 years.	-----	Makes no change in existing law---

confiscation of property by Cuba

H.R. 8363 as ordered reported by Senate Committee on Finance	H.R. 8363 as passed by the Senate	H.R. 8363 as agreed to by the conferees (Public Law)
Makes no change in existing law----	Permits a deduction for losses occasioned by the seizure, by Cuba, of personal residences (and other non-business property) by treating such losses as losses arising from a casualty [SA No. 196].	Senate version modified so as to limit the application of this new provision to losses of tangible property and with other technical changes [SA No. 196—HR with an amendment].

of self-employment tax

H.R. 8363 as ordered reported by Senate Committee on Finance	H.R. 8363 as passed by the Senate	H.R. 8363 as agreed to by the conferees (Public Law)
Makes no change in existing law----	Permits persons who paid self-employment tax and who are later covered for the same period by a retroactive social security agreement entered into by a State to obtain a refund of the self-employment tax in the same manner as FICA tax. This amendment is similar to H.R. 5468, ordered reported by the Committee on Ways and Means [SA No. 197].	Senate version modified so as to apply both to agreements and modifications of agreements under Sec. 218 of the Social Security Act. In addition, provides that if the allowance of a credit or refund of an overpayment or attributable to such an agreement or modification is otherwise prevented by the operation of any law or rule of law other than sec. 7122 of the code (relating to compromises) such credit or refund may be allowed or made if claim therefor is filed on or before whichever of the following is the later: (A) the last day of the second year after the calendar year in which such agreement or modification is agreed to by the State and the Secretary of Health, Education, and Welfare, or (B) Dec. 31, 1965 [SA No. 197—HR with an amendment].

value of reversionary or remainder interest in property

H.R. 8363 as ordered reported by Senate Committee on Finance	H.R. 8363 as passed by the Senate	H.R. 8363 as agreed to by the conferees (Public Law)
Makes no change in existing law----	Provides 3 years (rather than 2) after a precedent interest terminates for the payment of estate tax if earlier payment results in undue hardship. Effective date: In general, applies only if time for payment of tax under Chapter 11 of 1954 Code and Chapter 3 of the 1939 Code has not expired on date of enactment of this bill [SA No. 198].	Same as Senate version [SA No. 198—HR with an amendment].

Present law	Treasury recommendations	H.R. 8363 as passed by the House of Representatives
Insurance proceeds received as a result of destruction or damage to crops are required to be reported in the year in which such proceeds are received.	-----	Makes no change in existing law---

Transportation of disabled

Present law	Treasury recommendations	H.R. 8363 as passed by the House of Representatives
No deduction is allowed for commuting expenses.	-----	Makes no change in existing law---

Additional personal

Present law	Treasury recommendations	H.R. 8363 as passed by the House of Representatives
An extra personal exemption of \$600 is allowed for a taxpayer (or his spouse) who is blind, but is not allowed for a taxpayer (or his spouse) who is otherwise disabled.	-----	Makes no change in existing law---

insurance proceeds

H.R. 8363 as ordered reported by Senate Committee on Finance	H.R. 8363 as passed by the Senate	H.R. 8363 as agreed to by the conferees (Public Law)
Makes no change in existing law----	Provides that insurance proceeds received as a result of destruction or damage to crops may be reported for income tax purposes in the year following the year of destruction or damage if the taxpayer satisfies the Secretary of the Treasury that the income from the crop would not have been reported until the later year [SA No. 199].	Same as House version, i. e. makes no change in existing law [SA No. 199—SR].

individual to and from work

H.R. 8363 as ordered reported by Senate Committee on Finance	H.R. 8363 as passed by the Senate	H.R. 8363 as agreed to by the conferees (Public Law)
Makes no change in existing law----	Provides a deduction of up to \$600 for transportation expenses of going to and from work for a taxpayer who is blind or who has lost the use of a leg, both legs, both arms, or is otherwise disabled, if he cannot use public transportation. Effective date: Applies only with respect to taxable years ending after the date of the enactment of this Act [SA No. 200].	Same as House version; i.e., makes no change in existing law [SA No. 200—SR].

exemptions for disability

H.R. 8363 as ordered reported by Senate Committee on Finance	H.R. 8363 as passed by the Senate	H.R. 8363 as agreed to by the conferees (Public Law)
Makes no change in existing law----	Provides an extra \$600 exemption for a disabled taxpayer or a disabled spouse. For this purpose a disabled individual is one who has a permanent loss (or permanent loss of use) of one or more of the extremities or is otherwise under a physical or mental disability which can be expected to result in death or to be of long-continued and indefinite duration and which renders him unable to engage in any substantial gainful activity. Effective date: Substantive changes apply to taxable years ending after the date of enactment of this Act and the withholding provisions apply with respect to payment of wages made after such date [SA No. 201].	Same as House version; i.e., makes no change in existing law [SA No. 201—SR].

Present law	Treasury recommendations	H.R. 8363 as passed by the House of Representatives
Claims for refund filed after July 1-September 30 of each year, with respect to gasoline used during the 1-year period ending on June 30, under sec. 6420 cannot be honored by the Secretary.		Makes no change in existing law---

Facilities to control

Present law	Treasury recommendations	H.R. 8363 as passed by the House of Representatives
In general, present law allows a credit equal to 7 percent of certain types of investment (3 percent in case of most public utilities) which may be offset against tax liability.		Makes no change in existing law----

of taxes paid for gasoline used on farms

H.R. 8363 as ordered reported by Senate Committee on Finance	H.R. 8363 as passed by the Senate	H.R. 8363 as agreed to by the conferees (Public Law)
Makes no change in existing law-----	Permits the Secretary to honor a claim for refund of taxes paid for gasoline used on farms which is filed after the statutory period for filing the refund claim (June 30-September 30) if the claimant had good cause for failure to file a timely claim [SA No. 202].	Same as House version; i.e., makes no change in existing law [SA No. 202—SR].

water or air pollution

H.R. 8363 as ordered reported by Senate Committee on Finance	H.R. 8363 as passed by the Senate	H.R. 8363 as agreed to by the conferees (Public Law)
Makes no change in existing law-----	<p>Allows a double investment credit for facilities or equipment to control water or air pollution. For water pollution control, this provision includes equipment which removes, alters, or disposes of wastes from any type of manufacturing or mining process, and includes necessary sewers, pumping, power, and other equipment. For air pollution control, this provision includes equipment to control atmospheric pollution or contamination by removing, altering, or disposing of atmospheric pollutants and contaminants from any type of manufacturing or mining process.</p> <p>Effective date: Applies to taxable years beginning after Dec. 31, 1963 [SA No. 203].</p>	Same as House version, i.e., makes no change in existing law [SA No. 203—SR].

PART IV

OTHER RECOMMENDATIONS MADE BY THE TREASURY DEPARTMENT WHICH ARE NOT INCLUDED IN H.R. 8363 AS FINALLY ENACTED

1. **Tax treatment of older persons:** Would substitute a \$300 tax credit for those taxpayers over age 65 for the present \$600 additional exemption from income and the present retirement income credit. The new act, however, in section 112, allows a new minimum standard deduction of \$300 for each taxpayer plus \$100 for every exemption allowed him—maximum of \$1,000. (See p. 14 of this document.)

2. **Travel expenses:** Would provide specific rules for the deduction of transportation expenses when outside the "duty area" on business and also for the deduction of meals and lodging while away from the "duty area" more than 16 hours. Other modifications would also be made. (See sec. 218 of this act (at p. 88 of this document) which repeals the requirement of allocation of certain traveling expenses for travel in the United States.)

3. **Research and development expenses:** Would provide that, subject to certain limitations, expenditures made for machinery and equipment used solely in research and development be deducted as incurred instead of being capitalized and then deducted gradually by depreciation.

4. **Gains accrued on capital assets at time of gift or death:** Recommended that the gain on the appreciation in the value of assets transferred at death be subjected to income tax (at long-term capital gains rates). Under the proposal, the tax on appreciation in value would also be imposed on transfers by gift made during lifetime.

5. **Sale of life estates:** Would provide that where a person holding a life estate acquired by gift, bequest, or inheritance sells that estate, the amount received would be treated as anticipated income and would be taxed as ordinary income without decrease for any basis he may have in the property.

6. **Split-dollar insurance:** See page 38 of this document for Treasury recommendation on this subject matter on which no action was taken by the Congress in this act.

7. **Deferred payments contingent on future income:** See page 50 of this document for Treasury recommendation on this subject matter on which no action was taken by the Congress in this act.

8. **Carryover of excess deductions in the case of oil and gas royalties:** See page 62 of this document for Treasury recommendation on this subject matter on which no action was taken by the Congress in this act.

9. **Sale of mineral interests:** See page 64 of this document for Treasury recommendation on this subject matter on which no action was taken by the Congress in this act.

10. **5-percent limitation on itemized deductions:** Would provide that itemized deductions from adjusted gross income would be allowed only to the extent that they exceed 5 percent of adjusted gross income. The 5 percent floor would be applied to the total of all itemized deductions, not to each type of deduction separately.

PART V

OTHER AMENDMENTS WHICH WERE CONSIDERED BUT REJECTED BY THE SENATE COMMITTEE ON FINANCE (AS ANNOUNCED IN PRESS RELEASES) IN CONNECTION WITH ITS CONSIDERATION OF H.R. 8363 (SECTION NUMBERS REFERRED TO ARE SECTION NUMBERS OF THE HOUSE VERSION OF THE BILL)

A. Sections of the bill (as passed by the House)

Section 1. **Declaration by Congress.**—Would have substituted in lieu of this provision a provision which, in general, would have indicated that it was the sense of Congress, barring unforeseen emergencies, that congressional appropriations and spending during the transition period should not exceed the amounts appropriated and spent in the fiscal year 1964.

Section 111. **Reduction of tax on individuals.**—

(1) Would have provided a substitute rate schedule coupled with provisions other than provisions relating to the rate schedule. The substitute rate schedule would have ranged from approximately 10 to 50 percent.

Section 112. **Minimum standard deduction.**—An amendment would have increased the minimum standard deduction from \$200 to \$400 and with the increase in the deduction would have reduced the corporate rate reduction.

Section 121. **Reduction of tax on corporations.**—

(1) Would have reduced the corporate rate in 1964 to 51 percent and in 1965 and subsequent years to 50 percent. This amendment would have been coupled with the repeal of certain excise taxes.

(2) Would have increased the surtax exemption to \$50,000 from \$25,000.

Section 201. **Dividends received by individuals.**—

(1) Would have deleted this provision and restored existing law.

(2) Would have continued the present allowance of a 4-percent credit for dividends received by individuals but with a maximum credit of \$1,000 (a 4-percent credit on \$25,000 of dividend income).

Section 202. **Investment credit.**—

(1) *Motion picture and television films and tapes (*SA 378).*—Would have made the investment credit available in the case of motion picture and television films and tapes produced in the United States.

(2) *Treatment by regulatory agencies in the case of a consolidated group (SA 337).*—Would have prohibited Federal regulatory agencies without the consent of the taxpayer from using income, deductions, and credits which arise from or are directly related to nonregulated activities of a consolidated group to reduce the taxpayer's Federal income tax in establishing rates.

(3) *Treatment by Federal regulatory agencies of liberalized depreciation.*—Would have provided that Federal regulatory agencies in establishing rates for consumers are not to take into account any reduction in costs brought about by the excess of the deductions available under the fast writeoff methods over the straight-line method of depreciation.

(4) *Adjustment to basis.*—Would have deleted the provision of section 202(a) relating to the downward adjustment in basis.

Section 203. **Group term life insurance.**—

(1) Would have provided a substitute for the determination of premium costs on the basis of a single average premium rather than on the basis of the taxable premium rates in the bill which vary by 5-year brackets with age.

(2) Would have limited the exclusion for group term life insurance to plans which were nondiscriminatory.

(3) Would have deleted this provision from the bill.

Section 205. **Wage continuation payments.**—

(1) Would have deleted this provision from the bill.

(2) Would restore the provision of present law but provide the exemption of only 75 percent of sick pay up to \$100 a week rather than 100 percent of this amount.

(3) Would have made the sick pay exclusion available where the individual is absent from work more than 14 days.

Section 206. **Gain on sale or exchange of residence.**—

(1) Would amend section so as to apply to taxpayers age 62 or over who sell their personal residence (rather than age 65).

* The letters "SA" refer to Senate Amendment.

Section 214. **Employee stock option and purchase plans.**—

- (1) Considered extending the option period from 5 to 10 years.
- (2) Considered a provision repealing the stock option provisions for options granted after January 14, 1964.
- (3) Considered a provision retaining capital gains treatment for stock options but providing for the taxation of this gain at the time of exercise of the option.
- (5) Considered a 2-year holding period for the stock instead of a 3-year holding period.
- (6) Would have denied any special qualified stock option treatment for the future; however, employee stock purchase plans would have been continued as provided under the bill.

Section 216. **Personal holding companies.**—

- (1) Would have made the general effective date for the new personal holding company provision taxable years beginning after December 31, 1964, rather than December 31, 1963.
- (2) Would have provided that in the case of those taxpayers who did their own wildcatting, production derived therefrom for purposes of determining the amount of active income in applying the 60 percent personal holding company test is not to be reduced for depletion, taxes, and interest.

Section 217. **Treatment of property in the case of oil and gas wells.**—

- (1) SA 368: Would have provided a graduated percentage depletion allowance. The allowance would be 27½ percent on gross income not in excess of \$1 million, 21 percent on this income from \$1 million to \$5 million, and 15 percent on this income in excess of \$5 million.
- (2) SA 341: Would have reduced all percentage depletion allowance in excess of 20 percent to that figure. Thus, the allowance for oil and gas would be reduced from 27½ percent to 20 percent, that for uranium and sulfur would be reduced from 23 percent to 20 percent and that for certain other mineral deposits specified in the code from U.S. sources would be reduced from 23 percent to 20 percent.
- (3) Would have reduced the net income limitation for various minerals from 50 percent to 33½ percent. Under present law, the percentage depletion allowance is either a specified percentage of gross income from the property or 50 percent of net income from the property, if this is less.
- (4)(a) Would have provided a carryover of intangible drilling and related expenses to the extent they exceed the income from the property. In the year to which these amounts are carried they would be considered as reducing the income subject to the 50-percent net income limitation.
- (b) Would have provided that on the sale of a mineral property a portion of any gain realized might be treated as ordinary income. The amount which would be considered as ordinary income at time of sale would be the intangible drilling and related expenditures, as well as any depletion taken to the extent of the taxpayer's basis in the property.
- (5) Would have provided that in the case of foreign oil where the taxing and leasing authorities are the governmental unit, that the amounts specified as taxes in this case should be treated for tax purposes in the same manner as royalty payments; i.e., they be excluded in computing income rather than allowed as a credit against tax.
- (6) Would have made the House provision relating to the aggregation of property effective for taxable years ending after December 31, 1964.

Section 221. **Averaging.**—

- (1) Would have deleted this provision from the House bill.

Section 223. **Reduction of surtax exemption in case of certain controlled corporations.**—

- (1) Would have provided that in the case of a parent and a series of subsidiaries meeting the 80-percent common ownership test of the House bill that the number of surtax exemptions for the group be limited to one.
- (2) Would have provided that in the case of a parent and a series of subsidiaries meeting the 80-percent common ownership test of the House bill that the number of surtax exemptions for the group be limited to not more than five. The 6-percent penalty provision of the House bill would continue to apply with respect to the first five exemptions.
- (3) Would have provided that section 1551 of the code which under the House version of the bill applies to transfers by corporations directly or "indirectly" of all or part of its property other than money to a transferee corporation be modified by striking out the reference to "indirectly." The House provision by adding the word "indirectly" denies multiple surtax exemptions where a corporation is split up and money is transferred to the new corporation which in turn is used to purchase property from the first corporation.

B. Amendments not directly related to any particular section

1. **Simplified tax method (SA 228).**—Taxpayers would have been permitted to elect to avoid for 5-year periods the graduated tax rates if they forgo special credits, exclusions, and deductions. The rates under the amendment would be 40 percent on the first \$50,000 of simplified taxable income and 50 percent of such income in excess of \$50,000 with appropriate adjustments for joint returns and heads of household. A motion to make such method compulsory for incomes of \$60,000 or over was rejected. An amendment to include capital gains as ordinary income when this election is made was

also defeated. A motion to make the election irrevocable was defeated. A nonseparability clause was added. With such a clause, if any portion of the amendment was declared unconstitutional, the entire amendment would be void. For those taxpayers making the election, gain on stock options would be taxed as ordinary income at the time of exercise.

2. **Political contributions (SA 272).**—Would have provided a tax credit which when taken would not exceed \$20 in the case of a separate return or \$40 in the case of a joint return. This amendment was to apply to contributions to further the candidacy of one or more individuals in a general, primary, or special election.

3. **Exploration expenditures (SA 204).**—Would have removed the existing limitation on deductions of \$100,000 in any one year and \$400,000 in all years for exploration expenditures with respect to all minerals except oil and gas.

4. **Exploration expenditures.**—Would have increased to \$600,000 from \$400,000 the aggregate allowable deduction.

5. **Travel and entertainment expenses (SA 229).**—Would have repealed the limitation on the deduction of gifts and the provision relating to travel expenses where the travel combines business and pleasure. Would also substitute a test of "reasonableness" for the present tests relating to activities and facilities. Modifications would also be made in the substantiation requirements.

6. **Real property taxes paid by lessee (SA 338).**—Would have permitted a lessee under a lease for 20 years or more to deduct real property taxes paid by him if the lease requires him to pay these taxes and if his residence is situated on the leased land.

7. **Unlimited charitable contributions deduction (SA 370).**—Would have repealed the provision of existing law permitting unlimited charitable contributions deduction.

8. **Depletion of physical strength, etc., of professional athletes (SA 332).**—Would have allowed professional athletes to deduct, in computing their income, an amount representing the depletion of their strength, stamina and skills used in professional sports. The deduction would be one over the "career span" for the particular form of athletics involved multiplied by the athlete's income for the year in question.

9. **Ordinary income offset by capital losses (SA 359).**—Would have increased from \$1,000 to \$2,000 in 1964, to \$3,000 in 1965, to \$4,000 in 1966, and \$5,000 in 1967 and subsequent years the amount of ordinary income which may be offset by capital losses.

10. **Capital gains treatment upon liquidation of small business (H.R. 7503).**—Would have provided that the recapture provisions of present law which result in ordinary income upon the sale of an asset by reason of depreciation previously taken are not to apply in the case of small businesses and firms.

11. **Air and water pollution abatement (SA 336).**—Would have provided that the cost of expenditures for treatment works to control water and air pollution could be written off as the taxpayer saw fit within the 5-year period after acquisition of the works rather than capitalizing these expenditures as provided under present law.

12. **Intangible drilling and development costs.**—Would have denied the immediate writeoff for intangible drilling and development costs for gas and oil.

13. **Tax credit for expenses of higher education (SA 329).**—Would have provided a tax credit of up to \$325 for expenses for tuition, fees, books and supplies for higher education.

14. **Deduction for entertainment expenses.**—Would have deleted the requirement in present law which requires that there be a substantial business discussion before or after entertainment for the expense to be considered a deductible entertainment expense.

15. **H.R. 7516, relating to the taxation of cooperatives.**—Would have treated as taxable income to tax-exempt cooperatives income derived from business done with the government whether or not this income was allocated to the accounts of other patrons.

16. **H.R. 5468 relating to the credit or refund of self-employment tax in certain cases.**—This bill which has been ordered favorably reported by the Committee on Ways and Means would have allowed a credit or refund in certain cases where individuals had been covered retroactively for social security purposes and at the same time were already covered as a result of self-employment income.

17. **Depreciation guidelines (SA 319).**—Would have directed the Secretary of the Treasury to prescribe useful lives for property no longer than those prescribed by revenue ruling 62-21 and would have deleted the reserve ratio test.

18. **Intercorporate dividends received deduction.**—Would have increased from 85 percent to 90 percent the portion of intercorporate dividends for which a deduction would be allowed in those cases where there is 95 percent common ownership (rather than 80 percent).

19. **Increase in personal exemptions.**—Would have increased from \$600 to \$1,000 the personal exemption.

20. **Exclusion for income earned abroad.**—Would have reduced from the present \$35,000 or \$20,000 to \$6,000 the exclusion for income earned abroad by those who are bona fide residents of foreign countries or who are in foreign countries 17 out of 18 months.

21. **Interest equalization tax.**—Would have adopted the text of H.R. 8000 as reported by the Committee on Ways and Means except that the effective date of the tax would be January 1, 1964, instead of July 18, 1963.

22. **Head of household treatment (SA 377).**—Would have made head-of-household treatment available to all persons over age 35 who are not already receiving such treatment or were not already receiving full income splitting.

23. **Flood losses.**—Would have provided a tax deduction for amounts paid with respect to flood loss insurance.

C. Excise taxes

1. **Musical instruments (SA 276).**—Would have provided an exemption from the 10-percent excise tax for musical instruments used by students in an orchestra, band, etc., sponsored by an educational organization.

2. **Retailers' excise taxes on toilet preparations.**—Would have repealed the retailers' excise taxes on toilet preparations (cosmetics and similar items).

3. **Manufacturers' excise tax on pens and mechanical pencils.**—Would have repealed the 10-percent excise tax on pens and mechanical pencils.

4. **Tax on television tuners (SA 274) (Context of S. 1151).**—Would have treated television tuners as taxable articles in the period from November 1, 1950, to August 31, 1955, so that tubes purchased tax free for use in the tuner would not become taxable.

5. **Retail excise tax on luggage.**—Would have repealed the 10-percent retail excise tax on luggage, ladies' handbags and wallets, etc.

6. **Retail excise tax on jewelry and related items.**—Would have provided an exemption from the 10-percent excise tax on jewelry, furs, watches, silver-plated flatware, and similar items with respect to the first \$100 of retail price.

7. **Manufacturers' excise tax on musical instruments.**—Would have repealed the 10-percent tax on all musical instruments except pianos and organs.

8. **Automotive excise tax.**—Would have provided an exemption for camper coaches and slide-in cabins from the 10-percent automotive manufacturers' excise tax.

9. **Admissions tax, legitimate theater.**—Would have exempted from the 10-percent admissions tax performances in the legitimate, living theater.

PART VI

Amendments offered on the Senate floor, but which were rejected or withdrawn by the Senate

(Page numbers referred to are Congressional Record page numbers) .

1. **Group-term life insurance—exclusion:** Senator Gore. Vote: 69 to 16. Summary: Would have decreased from \$70,000 of coverage to \$30,000 the maximum exclusion. Page 1684.

2. **Tax credit for higher education:** SA 329. Senator Ribicoff. Vote: 48 to 45. Summary: Would have provided a tax credit for college costs to be based on the first \$1,500 of tuition, fees, books, and supplies per student at an institution of higher education. The amount of the credit would be 75 percent of the first \$200, 25 percent of the next \$300, and 10 percent of the next \$1,000. The maximum credit would be \$325. Estimated cost for the first year would be \$750 million. It is estimated that in 1970, the loss would be \$1,300 million. Page 1697.

3. **Deduction for higher education:** SA 401. Senator Prouty. Vote: 47 to 47. Summary: Would allow a special tax deduction for higher education geared to the number of months in school with a maximum of \$1,200 or \$1,500, depending upon whether or not the taxpayer held a degree. Page 1758.

4. **Personal exemptions:** SA 208. Senator Gore. Voice vote. Summary: Would have substituted a provision increasing the personal exemption to \$1,000 from the present \$600 in lieu of the individual and corporate rate reductions. Page 1775. Substitute amendment to increase personal exemption from \$600 to \$800 and to adjust corporate income tax rates.

5. **Minimum standard deduction:** Senator Douglas. SA 411. Vote: 71 to 21. Summary: Would have increased the minimum standard deduction of \$300 for each taxpayer and \$100 for each dependent under the House bill by an additional \$100 for the taxpayer and for each dependent. Would correspondingly reduce the reduction of corporate rates by 1 percent in 1964 and 1965. Pages 1791 and 1933.

6. **Dividend credit:** Senator Dirksen. Vote: 47 to 44. Summary: Would have retained the 4-percent dividend credit as under existing law but would have limited the amount of the credit that could be claimed in any one year to \$300. Page 1793.

7. **Additional exemption for dependent who is blind:** SA 277. Senator Hartke. Vote: Rejected on a division. Summary: Would have provided an additional \$600 exemption for a blind taxpayer. Page 1809.

8. **Premiums for flood insurance:** SA 406. Senator Carlson. Withdrawn. Summary: Would have clarified the deductibility of premiums paid for policies of flood insurance including such premiums paid by subscribers to a reciprocal interinsurance exchange. Page 1810.

9. **Regulatory agencies:** SA 387. Senator Proxmire. Divided into two parts. Senator Long's motion to table amendment defeated by vote of 42 to 52. First part would have eliminated section of the bill which provides that the 3-percent investment credit must be spread over the life of the asset and that the regulatory agencies cannot require the utility to reduce its rates to take into account all of the 3-percent investment credit in the first year in which the utility makes the purchase. Vote: 43 to 48. Second part of the amendment would have eliminated the provision restricting agencies regulating segments of the transportation industry in permitting passthrough of investment credit. Vote: 42 to 46. Page 1955.

10. **Regulatory agencies:** Senator Gore. Vote: 42 to 50. Would have provided that the restriction in the bill as to regulatory agencies permitting passthrough of investment credit would be applied uniformly as to all such agencies rather than establishing a distinction as between those regulating noncompetitive public utilities and those regulating segments of the transportation industry. Pages 2115 and 2118.

11. **Adjustment of basis under investment credit:** SA 386. Senator Proxmire. Vote: 20 to 58. Would have deleted that part of the bill which repeals basis adjustment under the investment credit. Page 2130.

12. **Percentage depletion rates for oil and gas wells:** SA 400. Senator Williams. Vote: 33 to 61. Summary: Would have provided a progressive 3-step reduction in certain percentage depletion rates. When fully effective in 1966, all those percentage depletion rates which are now above 20 percent would be reduced to 20 percent; would include oil and gas presently enjoying 27½ percent, sulfur, uranium, and certain other minerals which are extracted from deposits within the United States which are entitled to a 23-percent depletion rate. Page 2057.

13. **Percentage depletion for oil and gas wells:** SA 368. Senator Douglas. Vote: 35 to 57. Summary: Would have reduced the depletion allowance on oil and gas from the present 27½ percent to 15 percent in those cases where the taxpayers' gross income, abroad and at home, from oil and gas in any one year exceeds \$5 million. Allowance would have been reduced to 21 percent where the taxpayers' income from oil and gas exceeded \$1 million but did not exceed \$5 million; would have left the existing 27½ percent allowance for those whose income from oil and gas does not exceed \$1 million gross income per year. Page 2095.

14. **Capital loss carryover for individuals:** SA 359. Senators Morton and Dirksen. Summary: Would increase from \$1,000 to \$5,000 over graduated period of 4 years the allowed annual carryover of offsetting capital losses against ordinary income. Page 2251.

15. **Termination of tax reduction:** SA 407. Senator McClellan. Summary: Would provide that tax cuts in the bill remain in force only so long as total budget expenditures were not in excess of \$100 billion. Page 2262.

16. **Deduction to lessee of residential land of certain real property tax paid by him:** SA 338. Senator Fong. Withdrawn. Summary: Would have permitted a lessee who has a home on land leased to him for a term of 20 years or more to deduct real property taxes paid by him if the lease agreement requires him to pay such taxes. Page 2125.

17. **Interest on indebtedness incurred or continued to purchase or carry tax-exempt bonds:** SA 398. Senator Williams. Vote: 40 to 41. Summary: Would have deleted section 217 relating to interest on indebtedness incurred or continued to purchase or carry tax-exempt bonds. Page 2126.

18. **Repeal of retailer's excise tax on jewelry, furs, toilet preparations, and luggage:** SA 380. Senator Dirksen. Vote: 45 to 48. Summary: Would repeal the retailer's excise tax on jewelry, etc., but with respect to jewelry and furs, to the extent such price exceeds \$100. Page 1940.

19. **Repeal of manufacturers' excise tax on mechanical pencils and pens:** Senators Dirksen and Hickenlooper. Vote: 36 to 44. Summary: Would have exempted mechanical pencils and pens from the 10-percent manufacturers' excise tax. Page 2005.

20. **Musical instruments:** SA 276. Senator Hartke. Withdrawn. Would have excluded from the 10-percent excise tax musical instruments purchased for use for educational purposes for use in school bands and orchestras. Page 2008.

21. **Exemption from 10-percent excise tax tickets to live dramatic or musical performances:** SA 395. Senator Javits. Vote: 33 to 59. Summary: Would have excluded from the 10-percent excise tax tickets for the live theater. Page 2088.

22. **Retailers' excise tax on purses and handbags:** SA 417. Senator Keating. Vote: 35 to 55. Summary: Would have excluded from the 10-percent retail excise tax any purse or handbag that does not exceed \$50 in price. Page 2122.

23. **Cabaret tax:** SA 412. Senator Proxmire. Vote: 30 to 66. Summary: Would reduce from 10 percent to 3 percent, the cabaret tax. Page 2252.

24. **Rebuilt automotive parts:** SA 385. Senators Dirksen, Carlson, and Bennett. Voice vote. Would provide that the manufacturers' excise tax on parts and accessories would not be applicable to rebuilt parts or accessories. Page 2249.



4405A 5



U.S.D.A.
SEA/TIS
LAW LIBRARY
ROOM 1406 SOUTH
WASHINGTON D.C. 20250